

PORT  NELSON

Statement Of Corporate Intent

For the period from 1 July 2020 to 30 June 2023



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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 2020 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").



Introduction

Port Nelson is pleased to present the 2021 Statement of Corporate Intent, describing our intent for advancing our strategic purpose **“to facilitate regional prosperity/kia āhei ki te kōkiri whakamua ki te taumata ā-rohe”**.

PNL continues to make significant and sustained investments in its capability and assets. PNL will also continue the momentum and focus on strategic growth and resilience for the future.

This SCI signals a continuation of previous years investment, supported by a forecast of sustained financial performance.

Our Stakeholder and Strategic Pillars

This SCI overviews how, over the next three years, PNL will deploy its people, assets and alliances to add value to our stakeholders and deliver against our strategic pillars.





INTRODUCTION

The 2020 financial year was dominated by the impact of COVID-19. PNL was an essential service during lockdown, consequently it has fared better than many companies. However financial results have been impacted and it is expected there will be a tail throughout the 2021 financial year.

More positively, as the Te Taihu region's gateway to the world, PNL is fortunate to be involved in New Zealand's primary industries. Wine, apples, kiwifruit, fish, and logs are likely to continue to have strong export demand. Conversely, the processed timber industry may be impacted by reduced demand and it is unlikely that the cruise industry will fully recover by the coming season.

With the completion of the Main Wharf North redevelopment and commissioning of a new crane, this SCI signals the conclusion to a period of significant capital investment related to enabling the Port to cater for larger container vessels.

Ongoing will be the Port resilience work commenced in 2018 and the implementation of a new environmental strategy.

Over the period covered by the 2021 SCI, PNL intends to adopt a reporting framework to highlight the non-financial risks and opportunities that impact its ability to create value over the short, medium, and long-term.

This SCI is the beginning of this intention. The Performance Measures differ from previous SCI by including financial and non-financial measures against each of the company's strategic pillars.

We hope you enjoy reading a snapshot of our story.

More information is available on our website, portnelson.co.nz





As the Te Taihū region's gateway to the world, Port Nelson is fortunate to be involved in New Zealand's primary industries.



1. Strategic Overview

1.1. OUR CUSTOMERS

Provide leading port and logistics operations and, drive supply chain innovation

PNL continues to focus on our export and import customers along with shipping lines. The 2021 financial year will see the commissioning of a new crane, re-introduction of Main Wharf North into operations, resourcing and implementing a continuous improvement process and focusing on the growth of PNL's logistics and warehousing operations.

The beginning of the 2021 financial year also sees the start of the new structure of QuayPack and QuayConnect.

The restructure of PNL's logistics, and warehousing operations will improve efficiencies and enable PNL to connect more closely with customers.

Key areas of focus include the following:

- Support the regional economy through partnerships with local authorities, commercial partners, iwi and other stakeholders.
- Utilise new approaches and technology to overcome communication challenges, this includes creating a user-friendly website to improve our customer communication.
- Improve our QuayConnect Transport Networks for better efficiencies.
- Actively seek feedback from our customers to advise our continuous improvement process.

1. STRATEGIC OVERVIEW

1.2. OUR ENVIRONMENT

Improve our environment

PNL is aware of its obligations to the environment in which it operates. During the period of this SCI, PNL will continue its focus on improving sustainability outcomes. These improvements will be achieved through the actions in our Environmental Action Plan.

Key areas of focus include the following:

- Maintain ISO 14001 certification, (ISO 14001 is widely regarded as a gold standard of certification for an Environmental Management System. This system ensures that environmental procedures and improvement systems are embedded in an organisation and are auditable).
- Continue our commitment to be net Carbon Zero by 2050.
 - Overall reduction in fuel consumption per cargo unit.
 - Electrify our small vehicle fleet.
 - Integration of green technology.
 - Monitor and report emissions and progress against targets.
 - Investigate alternative energy options, including generation.
- Understand the risks associated with Climate Change through the Resilience Project and their mitigation through the Infrastructure Master Plan.
- Minimise significant noise events and initiate projects to reduce the impact of noise.
- Continue our sponsorship of the Haulashore Island trapping project to prevent the loss of biodiversity.
- Ensure there are no pollution incidents to the coastal marine area.
- Start the PNL Log Yard redevelopment project and reduce the impacts of dust and stormwater.

In the 2020 Annual Report, PNL will report its emissions and their trends over the last few years. A proposed revision of the Environment Management Plan in 2021 will establish quantified targets for the reduction of these emissions.

The on-going Resilience Project, which looks at the risk to the Port from events such as seismic shaking, tsunamis and global warming, will be completed in early 2021. This will allow PNL to advise on longer term risk implications to its operation. Mitigations to these events will be outlined in the Infrastructure Master Plan, also due for completion in 2021.

1. STRATEGIC OVERVIEW

1.3. OUR PEOPLE

Build and keep safe a high-performing team

Looking ahead will see PNL focusing on measurably reducing safety risks and aligning our Health & Safety Management System to the ISO 45001 framework.

This SCI points to a continuation of developing employee engagement, and ensuring we continue to develop and implement leadership development modules.

Key areas of focus include the following:

- Critical Risk Verification Reviews.
- Reduced Lost Time Injury Frequency Rate.
- Continue to qualify employees in the New Zealand Certificate in Port Operations.
- Pulse checks to help us design and measure effectiveness of engagement and culture improvement initiatives.
- Increased visible leadership support for Health & Safety and wellbeing at PNL.

1.4. OUR COMMUNITY

Improve our community

PNL are proud of the involvement with our Te Taihū community.

This includes initiatives to help the region prosper through collaboration and continuing our sponsorship and business partnerships.

A new initiative includes partnering with Nelson Tasman Chamber of Commerce to support an Export Hub providing practical support and advice for exporters, and businesses thinking about exporting. PNL will collaborate and knowledge share to help members prosper in the exporting industry.

We also have various sponsorship recipients within the community including; Te Ramaroa (Light Nelson), Hearing Nelson, Whakatu Riding for the Disabled, Haulshore Island Trapping Project, LifeLinc through the Port Nelson Charity Golf Tournament and various other community organisations and initiatives.

Key areas of focus include the following:

- Continue to sponsor the Te Taihū community and events through the PNL sponsorship budget.
- Re-develop our website to ensure our community can easily access a mobile-friendly platform to keep up to-date with harbour conditions, job vacancies, latest news, PNL projects, and community initiatives.
- Re-develop the Nelson Slipways in partnership with Aimex, and with funding from the Provincial Growth Fund, which will lead to the retention of high skilled engineering jobs within the community.
- Keep our community up-to-date with our e-newsletter (RE:PORT).
- Increase knowledge of Port operations through the Port Nelson Open Day.
- Strengthen our relationship with local iwi through knowledge sharing, collaborative projects, and sponsorship.

1. STRATEGIC OVERVIEW

1.5. OUR SHAREHOLDERS

Deliver strong returns to our shareholders

The 2020 financial year resulted in an over 20% drop in net profit after tax, this was largely due to the impact of COVID-19. The COVID impact is expected to continue well into 2023. As a result, forecast profitability and consequently dividends are well below that signalled in last year's SCI.

PNL continues to build resilience into critical infrastructure, specifically wharves. The 2021 financial year will see the completion of the Main Wharf North redevelopment, which is the result of a \$22 million investment. This redevelopment is underway and is due to be completed by the end of 2020. Once completed the new section of the main wharf will assist in enabling PNL to attract larger 260 to 270 metre vessels and 300 metre cruise vessels creating growth opportunities for our importers, exporters, and the community.

Increased dredging to support the entry of larger vessels will also be a key focus for the year, along with the completion of an Infrastructure Master Plan and Resilience Project. The Infrastructure Master Plan, looking to 2050, is aimed at optimising the Port facility and will be informed by the Resilience Project, a series of engineering investigations, modelled sea level rising and earthquake resilience.

Key areas of focus include the following:

- Complete redevelopment of Main Wharf North.
- Commissioning of the new crane.
- Safe navigation for ships into Port through increased dredging.
- Detailed assessment of wharf structures, and repairs.

1. STRATEGIC OVERVIEW

1.6. TARGETS FOR THE YEAR

	Strategic Pillar	Performance Measure
CUSTOMER	Provide leading port and logistics operations and drive supply chain innovation	Cargo Volumes of 3.36mil revenue tonnes
		Container Throughput of 119,000 TEU
		Vessel Visits of 742
		Gross Registered Tonnes of 9.77mil
ENVIRONMENT	Improve our environment	Fuel reduction of >1% on 2020 litres per revenue tonne
		Maintaining Port Nelson's ISO 14001 Certification
		No significant noise events >89 dbA LMAX
		A Port Nelson sponsored initiative to halt the loss of biodiversity/ prevent the extinction of threatened species
		No pollution incidents to the coastal marine area
		Commence the Port Nelson Log Yard redevelopment
		Compliance with all resource consent conditions
		Compliance with NZ Maritime safety standards
		Compliance with noise variation
PEOPLE	Build and keep safe a high-performing team	Critical Risk Verification Reviews >40 per year
		Lost Time Injury Frequency Rate reduced by 20% on FY20 (2.9)
		High risk events reduced by 20% on FY20 (6)
		New Zealand Certificate in Port Operations - Heavy Plant. 38 employees completed
COMMUNITY	Improve our community	Dividends paid to shareholder of \$4 million
		Sponsorship spend of \$110k
		Operate the Slipway in support of the Nelson Marine Engineering and Fishing clusters
		Port Nelson will hold a public open day
		Port Nelson will provide port tours to community groups and schools
SHAREHOLDER	Deliver strong returns to our shareholders	Revenue of \$75mil
		EBIT of \$13.4mil
		NPAT of \$7.4mil
		Return on Equity of 3.5%
		Net debt to Equity of <45%
		Return on Assets of 4.5%

1. STRATEGIC OVERVIEW

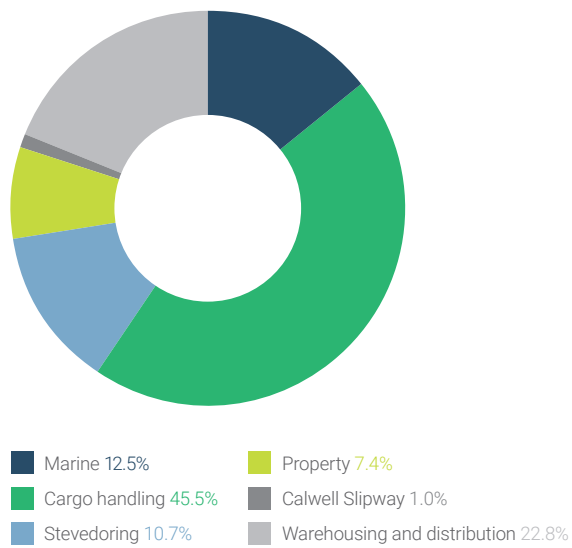
1.7. FINANCIAL PERFORMANCE

1.7.1. Operations	2021	2022	2023
Cargo throughput (cargo tonnes)	3.4m	3.5m	3.5m
Container throughput (TEUs – twenty-foot equivalent units)	119,000	122,000	122,000
Shipping tonnes (GRT – gross registered tonnes)	9.77m	9.97m	9.93m
Vessel visits	742	752	753

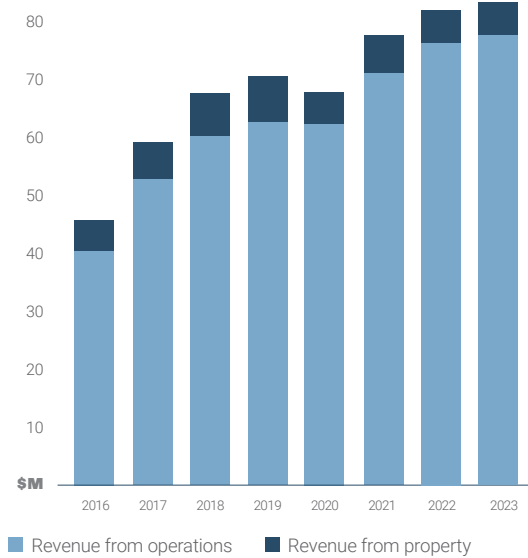
1.7.2. Financial	2021	2022	2023
Revenue	\$75m	\$81m	\$82m
Earnings before interest, tax, depreciation and amortisation	\$23m	\$25m	\$27m
Net profit after taxation	\$7m	\$9m	\$10m
Total assets	\$306m	\$309m	\$315m
Term debt	\$86m	\$83m	\$83m
Total equity	\$198m	\$203m	\$209m
Net debt to equity	43.4%	40.7%	39.8%
Return on equity	3.8%	4.4%	4.9%
Dividend declared	\$4m	\$4m	\$4.5m
Net assets per share	7.78	7.98	8.21
Earnings per share	0.29	0.35	0.39

1. STRATEGIC OVERVIEW

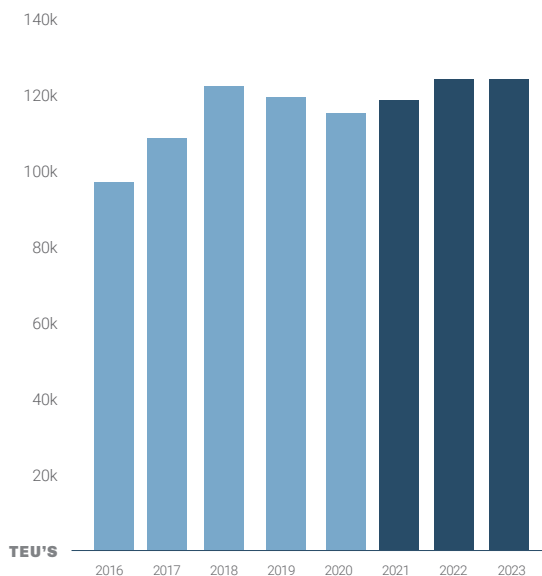
FINANCIAL YEAR 2021 REVENUE



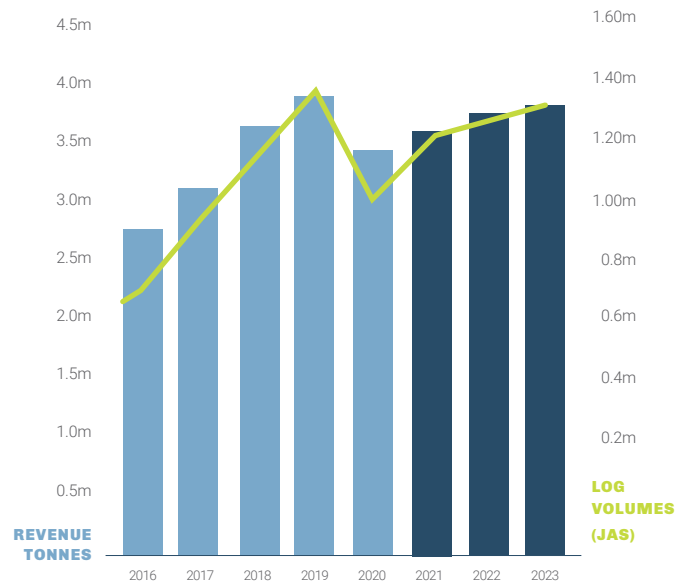
REVENUE BREAKDOWN



CONTAINER THROUGHPUT



REVENUE TONNES AND LOG VOLUMES





OUR PURPOSE:

To facilitate regional prosperity

Kia āhei ki te kōkiri whakamua ki te taumata ā-rohe



2. Governance

2.1. 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. slipway services for vessels up to 2400t,
- 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,
- i. supply chain and 4PL solutions services including management of; nationwide 3PL operations, transport services, coastal and international ocean freight and smart logistics technology.

2.2. CORPORATE CODE OF GOVERNANCE

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

2.3. COMPANY

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

2.4. 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.

2. GOVERNANCE

2.5. 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 specific issues including Health and Safety.

2.6. 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.

2.7. 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.

2.8. 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.

2.9. 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 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 \$4m for the year ended June 2021 and \$4m and \$4.5m for each of the following two years.



3. Stakeholders

3.1. INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

3.1.1. Annual Statement of Corporate Intent (SCI)

The Company will not later than one 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.

3.1.2. 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

3.1.3. 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:

- Performance Commentary
- Statement of Comprehensive Income
- Balance Sheet
- Cash Flow Statement
- Statement of Changes in Equity
- Notes to the Financial Statements
- Performance against the SCI performance targets
- Auditor's Report

3. STAKEHOLDERS

3.1.4. 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.

3.1.5. General Disclosure

The Company will provide information to the Shareholders on an ongoing but confidential basis to ensure that the Shareholders are informed promptly 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.

3.1.6. 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.

3.2. 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 five year strategic plan will be subject to Shareholder approval.

3.3. COMPENSATORY ACTIVITIES

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

3.4. VALUE OF SHAREHOLDER'S INVESTMENT

The Directors assessment of the value of the Shareholders investment in the Company is \$194.5m. The value is the prospective value of Total Shareholders' Funds as at June 30, 2021.

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.

4. Financial Statements Summary

4.1. STATEMENT OF COMPREHENSIVE INCOME

For the three year period July 2020 to June 2023	2021	2022	2023
	\$000	\$000	\$000
Revenue			
Port operations	69,460	75,860	76,460
Property	5,540	5,570	5,690
Total revenue	75,000	81,430	82,150
EXPENSES			
Employee benefit expenses	20,400	20,540	20,530
Other operational and property expenses	31,930	35,400	34,460
Earnings before interest, tax, depreciation and amortisation	22,670	25,490	27,160
Depreciation and amortisation	9,230	10,010	10,000
Earnings before interest and tax	13,440	15,480	17,160
Net financing costs	3,170	3,160	3,190
Net profit before income tax	10,270	12,320	13,970
Income tax	2,880	3,520	3,980
Net profit after income tax	7,390	8,800	9,990

4. FINANCIAL STATEMENTS SUMMARY

4.2. BALANCE SHEET

For the three year period July 2020 to June 2023	2021	2022	2023
	\$000	\$000	\$000
CURRENT ASSETS			
Cash and cash equivalents	10	10	10
Trade and other receivables	11,230	11,880	12,210
Inventories	570	570	570
Prepayments and accruals	230	230	230
Total current assets	12,040	12,690	13,020
LESS CURRENT LIABILITIES			
Trade and other payables	3,280	5,070	3,760
Employee benefit entitlements	1,880	1,890	1,890
Tax payable	1,090	1,300	1,500
Dividend payable	2,500	2,500	3,000
Noise mitigation	30	30	30
Total current liabilities	8,780	10,790	10,180
Working capital	3,260	1,900	2,840
NON-CURRENT ASSETS			
Property, plant and equipment	265,910	269,900	275,920
Intangible assets	2,580	1,940	1,270
Investment properties	24,980	24,880	24,780
Derivatives	–	–	–
Total Non-Current Assets	293,470	296,720	301,970
LESS NON-CURRENT LIABILITIES			
Employee benefit entitlements	250	250	250
Deferred tax liability	10,340	10,340	10,340
Term loan	85,840	82,590	83,060
Derivatives	2,240	2,240	2,240
Noise mitigation	440	400	370
Total non-current liabilities	99,110	95,820	96,260
Net assets	197,620	202,800	208,550
SHAREHOLDERS' FUNDS			
Issued capital	6,050	6,050	6,050
Retained earnings	76,900	82,080	87,830
Asset revaluation reserve	116,350	116,350	116,350
Hedging reserve	(1,680)	(1,680)	(1,680)
Total shareholders' funds	197,620	202,800	208,550

4. FINANCIAL STATEMENTS SUMMARY

4.3. STATEMENT OF CASH FLOWS

For the three year period July 2020 to June 2023

	2021	2022	2023
	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers	68,520	75,290	76,170
Rent received	5,540	5,570	5,690
Interest received	10	10	10
	74,070	80,870	81,870
Cash was applied to:			
Payments to suppliers and employees	51,600	56,440	55,130
Interest paid	3,120	3,180	3,200
Taxes paid	2,250	3,850	4,450
Net GST paid	700	180	200
	57,670	63,290	62,980
Net operating cash inflows	16,400	17,580	18,890
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of property, plant and equipment	10	750	–
	10	750	–
Cash was applied to:			
Purchase of property, plant and equipment	28,080	10,980	15,330
Purchase of intangibles	1590	100	30
	29,670	11,080	15,360
Net investing cash inflows/(outflows)	(29,660)	(10,330)	(15,360)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Loans borrowed	21,180	4,640	12,500
	21,180	4,640	12,500
Cash was applied to:			
Loans repaid	3,920	7,890	12,030
Dividend paid	4,000	4,000	4,000
	7,920	11,890	16,030
Net investing cash inflows/(outflows)	13,260	(7,250)	(3,530)
Net increase/(decrease) in cash held	–	–	–
Cash and cash equivalents at 1 July	10	10	10
Cash at 30 June	10	10	10

4. FINANCIAL STATEMENTS SUMMARY

4.4 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 several 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 16 Accounting for Leases. 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.

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.

4. FINANCIAL STATEMENTS SUMMARY

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 – the 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 the 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

4. FINANCIAL STATEMENTS SUMMARY

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 the 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. The cost incurred after the initial acquisition is 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 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 to determine the extent of the impairment loss (if any). Properties Intended for Sale are not depreciated. Properties are actively market, and there is a 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.

4. FINANCIAL STATEMENTS SUMMARY

(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 a 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 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) except 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.

4. FINANCIAL STATEMENTS SUMMARY

(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 temporary taxable differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for temporary deductible 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 to get ready for their intended use, are added to the cost of those assets until such 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

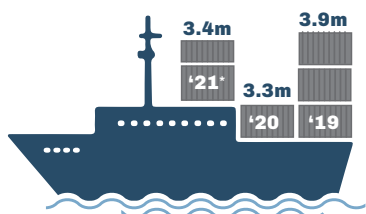
Leases of plant and equipment are classified as operating leases. Operating lease payments are charged as an expense in the period in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(r) Dividends

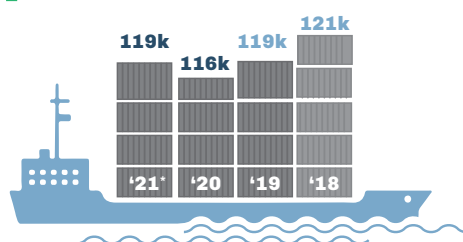
Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Key stats

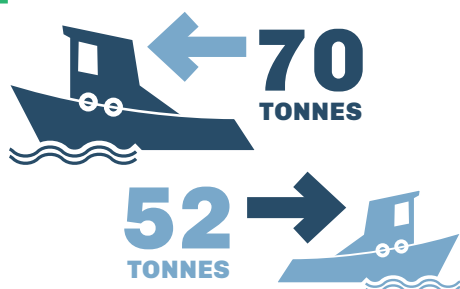
CARGO THROUGHPUT TONNES



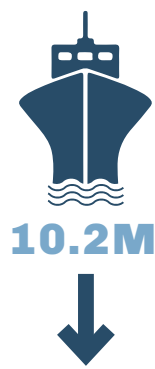
CONTAINER THROUGHPUT TEUs



TWO TUGS



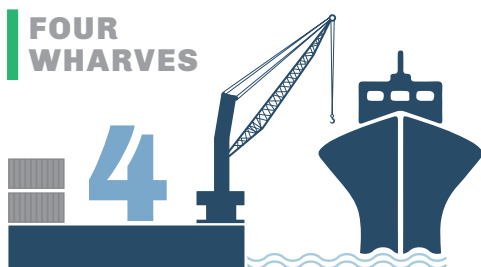
MAXIMUM DRAFT



BERTH POCKETS

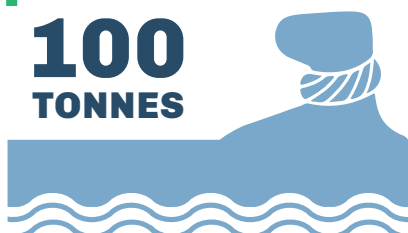


FOUR WHARVES



BOLLARD CAPACITY

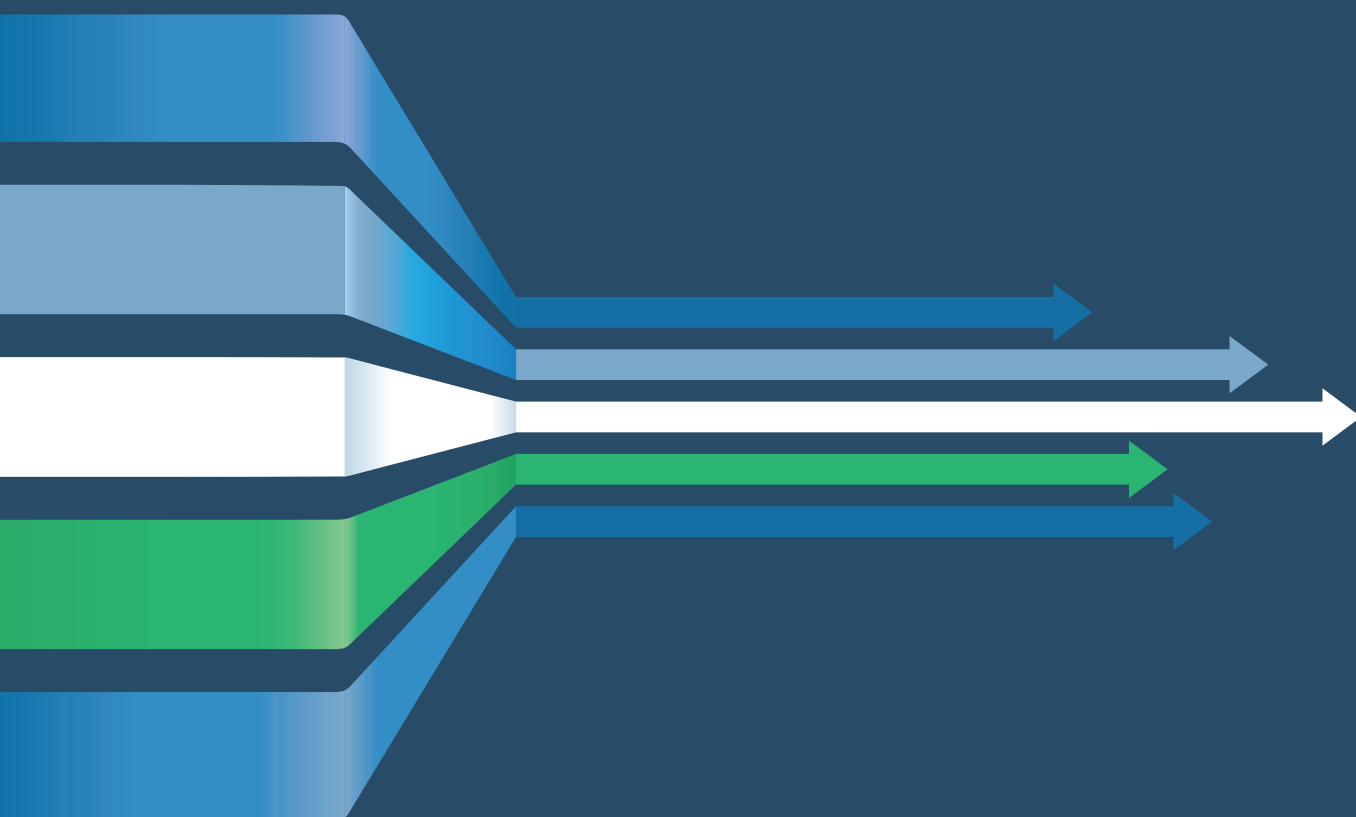
**100
TONNES**



\$75M
2021 REVENUE*

\$7M
2021 NET
PROFIT AFTER
TAXATION*

\$4M
2021 DIVIDEND*



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