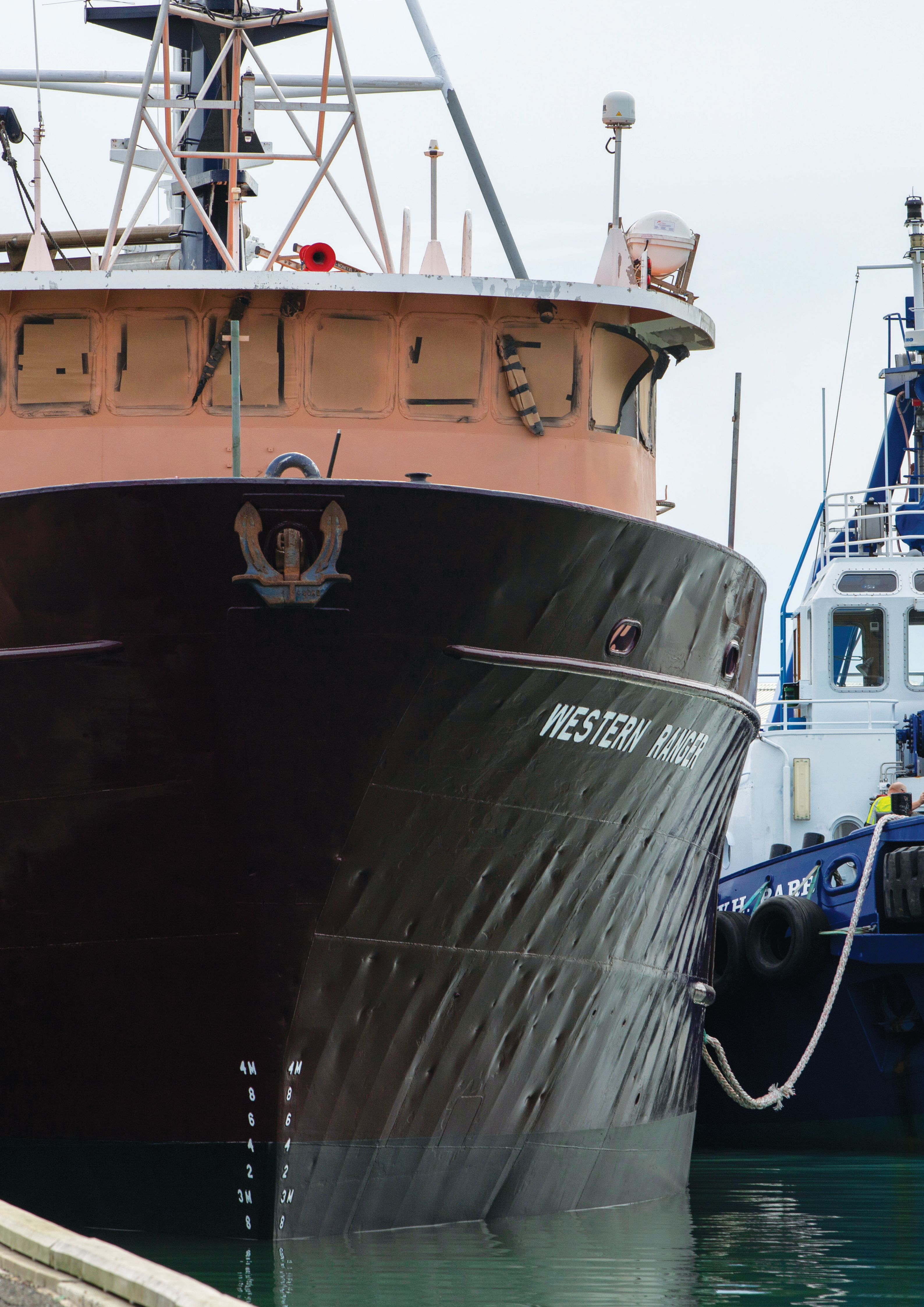
PORT NELSON

NAVIGATING CHANGE

ANNUAL REPORT

FINANCIAL STATEMENTS AND DISCLOSURES 2021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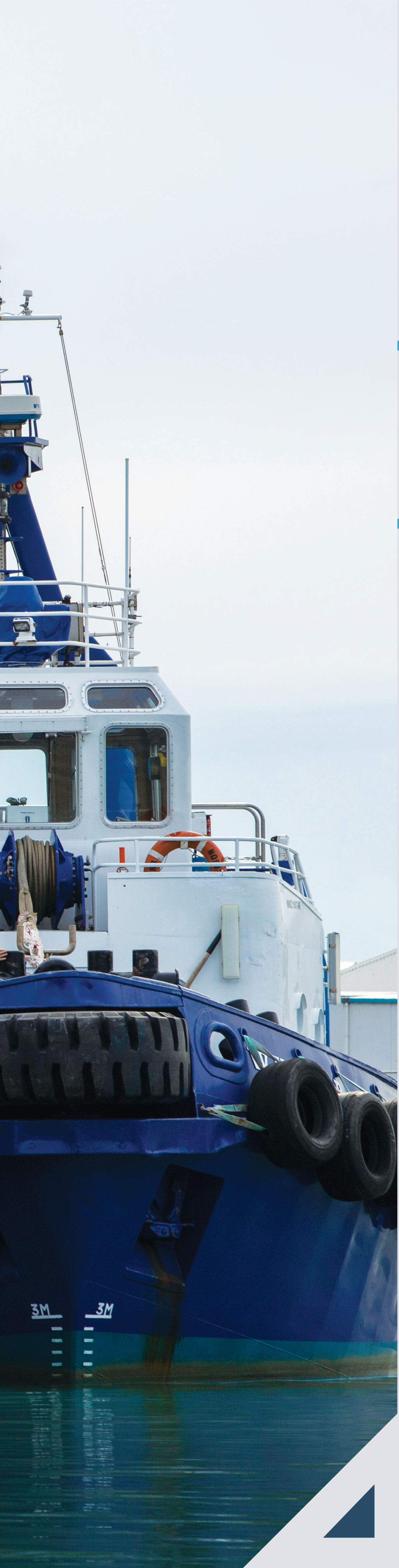

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Independent Auditor's Report

To the readers of Port Nelson Limited's financial statements for the year ended 30 June 2021

The Auditor-General is the auditor of Port Nelson Limited (the company). The Auditor-General has appointed me, Chris Genet, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company on his behalf.

Opinion

We have audited the financial statements of the company on pages 10 to 33, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the company:

- present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.

Our audit was completed on 28 September 2021. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the Auditor for the audit of the financial statements

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 3, 6 to 9 and 34 to 35, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

For the year ended 30 June 2021, the Chair of the company's Board of Directors was a member of the Auditor-General's Audit and Risk Committee until 9 July 2021. The Auditor-General's Audit and Risk Committee is regulated by a Charter that specifies that it provides independent advice to the Auditor-General and does not assume any management functions. There are appropriate safeguards to reduce any threat to auditor independence, as the member of the Auditor-General's Audit and Risk Committee has no involvement in, or influence over, the audit of the company.

Other than in our capacity as auditor, and the relationship with the Auditor-General's Audit and Risk Committee, we have no relationship with, or interests in, the company.

C Genet

Chris Genet

Audit New Zealand

On behalf of the Auditor-General

Christchurch, New Zealand

Statutory information

To the shareholders, on the affairs of Port Nelson limited
For the year ended 30 June 2021

Ownership

Port Nelson is owned equally by Nelson City Council and Tasman District Council.

Principal Activities

During the year Port Nelson provided port operational services and facilities including marine services, cargo handling services and facilities, and slipway services and facilities.

Port Nelson also provided warehousing and distribution services and leased property.

Role of the Board

The board is appointed by the shareholders and is responsible for governance and strategic direction of Port Nelson for the purpose of achieving its stated objectives.

As a framework for working, the board has developed a Corporate Governance Code of Practice. This considers a number of aspects including ethics, composition and performance of the board, roles, duties and responsibilities, health and safety objectives, stakeholder relations, reporting and disclosures and board committees.

Statement of Corporate Intent

In accordance with the Port Companies Act 1988 and the Company's constitution, annually the board prepares and delivers to the shareholders a Statement of Corporate Intent for approval.

The Statement of Corporate Intent sets out Port Nelson's objectives, principal activities and performance indicators. A copy of the Statement of Corporate Intent is available on Port Nelson's website.

The board also aims to ensure that the shareholders are informed of all major developments and issues affecting the company.

Board Committees

The board delegates some responsibilities and tasks to board committees. However, the board retains the ultimate responsibility and accountability for any committee decisions. All directors have the right to attend committee meetings.

The board's two committees are:

The Finance and Risk Committee that liaises with the company's independent auditor and reviews the quality and reliability of internal controls, financial information used and issued by the board, and risk management framework.

The Remuneration and Appointments Committee that reviews the company's remuneration policies and practices and reviews and sets the remuneration of the company's Chief Executive Officer and Senior Management Team.

The following directors served as committee members during the year:

Finance and Risk Committee

Kim Wallace, Geoff Dangerfield, Paul Zealand.

Remuneration and Appointments Committee

Bronwyn Monopoli, Tony Reynish, Jon Safey.

Directors' Insurance

The company arranges comprehensive Directors & Officers Liability Insurance cover within the limits and requirements as set out in the Companies Act 1993 and the company's constitution.

Loans to Directors

The company does not make loans to directors.

Donations

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

Auditors

In accordance with section 19 of the Port Companies Act 1988 and section 14 of the Public Audit Act 2001, Audit New Zealand on behalf of the Auditor-General is the auditor of the company.

Use of Company Information

During the year the board received no notices from directors requesting to use company information received in their capacity as directors that would not otherwise have been available to them.

Directors' Register of Interests

Directors recorded the following interests in the interest register for the year ended June 30, 2021.

Geoff Dangerfield

Chair, Wellington Water Ltd

Director, Payments NewZealand Ltd

Chair, Tawhiri Limited

Director, Geoff Dangerfield Consulting Ltd

Member, Audit and Risk Committee, Office of the Auditor General

Independent Member, Review of Rail Steering Group

Chair of Risk and Assurance Committee, Ministry of Primary Industries

Deputy Chair, NZ Board Symphony Orchestra Board

National Councillor, Institute of Directors

Bronwyn Monopoli

Associate Principal, Findex Nelson

Trustee, Light Nelson Trust

Director, Thames Farming Enterprises New Zealand Group Limited

Director, Thames Dairy Limited

Tony Reynish

Director / Shareholder, Stallion Ltd

Director, Quality Marshalling Ltd

Director, Timaru Container Terminal Ltd

Consultant, Port of Tauranga

Director, PrimePort Timaru Limited

Director, Ruakura Inland Port LP

Kim Wallace

Director/Audit and Risk Committee Chair, Origin Capital Partners GP Limited

Deputy Chair/Audit and Risk Committee Chair, AgResearch Limited

Chair, Assurance and Risk Committee, Christchurch City Council

Member, Risk and Assurance Committee, Ministry for Primary Industries

Consultant, NZ Transport Agency and KiwiRail

Director, Kim Wallace Consulting Limited

Director, Seahorse Beach Investments Ltd

Jon Safey

Director, Safeone Consulting Ltd

Director, Kumon (Advisor) Nippon Suisan Kaisha Japan

Paul Zealand

Director, Zoenergy Ltd

Director, Lochard Energy Pty Ltd

Director, Genesis Energy Ltd

Director, New Zealand Refining Ltd

Directors Remuneration

The total remuneration received by the company's directors during the year was as follows:

Phil Lough (retired September 2020)	$16,840
Geoff Dangerfield	$60,183
Bronwyn Monopoli	$34,676
Tony Reynish	$34,676
Kim Wallace	$35,673
Jon Safey	$34,676
Paul Zealand	$35,673
Total	**$252,399**

Employee Remuneration

The following table reflects remuneration paid to employees in excess of $100,000 per annum. The amount paid reflects actual payments made during the year. Any 'at risk' payments that were paid after balance date are excluded.

Remuneration	Number of Employees
$100,000 – $110,000	13
$110,001 – $120,000	8
$120,001 – $130,000	8
$130,001 – $140,000	3
$140,001 – $150,000	4
$150,001 – $160,000	1
$160,001 – $170,000	4
$200,001 – $210,000	1
$240,001 – $250,000	3
$420,001 – $430,000	1

Geoff Dangerfield
Chair of Directors
For and on behalf of the board

Kim Wallace
Director

Statement of Corporate Intent

For the year ended 30 June 2021

Purpose

To facilitate regional prosperity

Objectives

The Company's purpose of facilitating regional prosperity is underpinned by five strategic pillars; customers, environment, people, community, and shareholders.

Performance Measure	FY2021 Target	Result	Outcome
Customers			
	Cargo Volumes of 3.36mil revenue tonnes	3.3	✖
	Container Throughput of 119,000 TEU	102,995	✖
	Vessel Visits of 742	781	✔
	Gross Registered Tonnes of 9.77mil	9.2	✖

Performance Measure	FY2021 Target	Result	Outcome
Environment			
	A fuel reduction of >1% on 2020 litres per revenue tonne	6.4%	✔
	Maintaining Port Nelson's ISO 14001 Certification	Certification received 24 May 2021	✔
	No significant noise events >89 dbA LMAX	Nil	✔
	A Port Nelson sponsored initiative to halt the loss of biodiversity/ prevent the extinction of threatened species	One initiative undertaken	✔
	No pollution incidents to the coastal marine area	1	✖
	Commence the Port Nelson Log Yard redevelopment	Commenced 1 June 2021	✔
	Compliance with all resource consent conditions	Full compliance	✔
	Compliance with NZ Maritime safety standards	Full compliance	✔
	Compliance with noise variation	Full compliance	✔

KEY

✓ Achieved

✗ Not Achieved

Performance Measure	FY2021 Target	Result	Outcome
People			
	Critical Risk Verification Reviews >40 per year	44	Achieved
	Lost Time Injury Frequency Rate reduced by 20% on FY20 (2.9)	2.12	Achieved
	High risk events reduced by 20% on FY20 (6)	4	Achieved
	New Zealand Certificate in Port Operations - Heavy Plant (38)	19	Not Achieved
Community			
	Dividends paid to the shareholder of $4 million	$4 million	Achieved
	Sponsorship spend of $110k	$109k	Not Achieved
	Operate the Slipway in support of the Nelson Marine Engineering and Fishing clusters	Achieved	Achieved
	Port Nelson will hold a public open day	No	Not Achieved
	Port Nelson will provide port tours to community groups and schools	Achieved	Achieved
Shareholders			
	Revenue of $75mil	$73.5	Not Achieved
	EBIT of $13.4mil	$19.3	Achieved
	NPAT of $7.4mil	$13	Achieved
	Return on Equity of 3.3%	5.1%	Achieved
	Net debt to Equity of <45%	68.5%	Achieved

Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	2021	2020
		$000	$000
Revenue			
Port Operations	A1	63,648	60,982
Property	A1	9,862	5,762
Total revenue		**73,510**	**66,744**
Expenses			
Employee Benefit Expenses		21,109	20,273
Other Operational and Property Expenses	A2	23,802	25,574
Earnings before Interest, Tax, Depreciation and Amortisation		**28,600**	**20,897**
Depreciation and Amortisation		9,300	7,986
Earnings before Interest and Tax		**19,300**	**12,911**
Net Financing Costs	A3	2,598	2,717
Net profit before income tax		**16,702**	**10,194**
Income Tax	A4	3,669	2,040
Net profit after income tax		**13,033**	**8,154**
Other comprehensive income			
Movements in Revaluation Reserves	B1	-	57,612
Movements in Hedging Reserve		2,307	(977)
Total other comprehensive income		**2,307**	**56,635**
Total comprehensive income		**15,340**	**64,789**

Statement of Changes in Equity

For the year ended 30 June 2021

	Issued Capital	Retained Earnings	Asset Revaluation Reserve	Hedging Reserve	Total Equity
	$000	$000	$000	$000	$000
Balance at 1 July 2019	**6,046**	**70,992**	**116,664**	**(3,331)**	**190,371**
Net profit for the year		8,154			8,154
Other comprehensive income					
Asset revaluations recognised			68,853		68,853
Changes in the fair value of cash flow hedges				(1,370)	(1,370)
Deferred tax impact of movement in reserves			(11,241)	393	10,848
Total other comprehensive income			**57,612**	**(977)**	**(56,635)**
Total comprehensive income for the year	**-**	**8,154**	**57,612**	**(977)**	**64,789**
Dividends payable		(2,500)			(2,500)
Dividends paid		(2,300)			(2,300)
Balance at 30 June 2020	**6,046**	**74,346**	**174,276**	**(4,308)**	**250,360**
Net profit for the year		13,033			13,033
Other comprehensive income					
Asset revaluations recognised					-
Changes in the fair value of cash flow hedges				3,177	3,177
Deferred tax impact of movement in reserves				(870)	(870)
Total other comprehensive income			**-**	**2,307**	**2,307**
Total comprehensive income for the year	**-**	**13,033**	**-**	**2,307**	**15,340**
Dividends payable		(2,500)			(2,500)
Dividends paid		(1,500)			(1,500)
Balance at 30 June 2021	**6,046**	**83,379**	**174,276**	**(2,001)**	**261,700**

Statement of Financial Position

As at 30 June 2021

	Notes	2021	2020
		$000	$000
Current assets			
Cash and Cash Equivalents		374	220
Trade and Other Receivables	C1	9,838	10,735
Inventories		633	550
Prepayments and Accruals		325	638
Assets Intended for Sale		-	15
Total Current Assets		**11,170**	**12,158**
Less current liabilities			
Trade and Other Payables	C1	4,023	5,338
Employee Benefit Entitlements	D1	2,874	2,468
Tax Payable		1,826	75
Dividend Payable		2,500	2,500
Derivatives - Cash Flow Hedges	C1	454	228
Noise Mitigation	D1	174	191
Total Current Liabilities		**11,851**	**10,800**
Working capital		**(681)**	**1,358**
Non-current assets			
Property, Plant and Equipment	B1	327,631	316,653
Intangible Assets	B2	2,861	2,489
Investment Properties	B3	29,409	25,484
Derivatives - Cash Flow Hedges	C1	300	-
Total Non-Current Assets		**360,201**	**344,626**
Less non-current liabilities			
Employee Benefit Entitlements	D1	252	244
Deferred Tax Liability	A4	18,498	18,460
Term Loan	C1	75,670	70,500
Derivatives - Cash Flow Hedges	C1	2,698	5,807
Noise Mitigation	D1	407	196
Lease Liabilities	D5	295	417
Total Non-Current Liabilities		**97,820**	**95,624**
Net assets		**261,700**	**250,360**
Shareholders' funds			
Issued Capital	D2	6,046	6,046
Retained Earnings		83,379	74,346
Asset Revaluation Reserve	B1	174,276	174,276
Hedging Reserve	C1	(2,001)	(4,308)
Total shareholders' funds		**261,700**	**250,360**

Geoff Dangerfield, Chair of Directors

For and on behalf of the board

Kim Wallace, Director

September, 28 2021

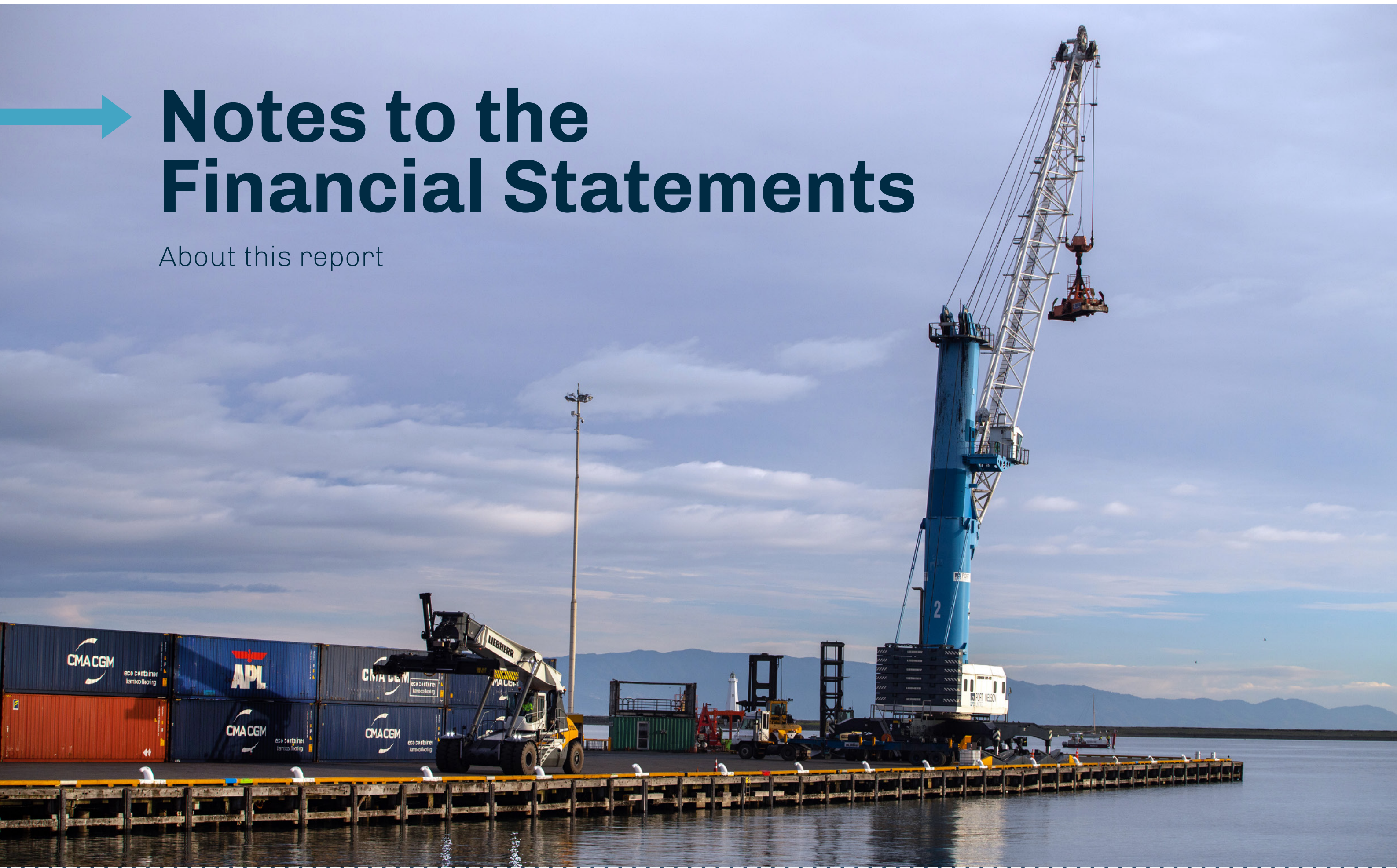
Statement of Cash Flows

For the year ended 30 June 2021

	Notes	2021	2020
		$000	$000
Cash flows from operating activites			
Cash was provided from:			
Receipts from customers		64,367	59,962
Rent received		5,960	5,473
Interest received		-	1
		70,327	**65,436**
Cash was applied to:			
Payments to suppliers and employees		44,002	44,025
Interest paid		2,598	2,760
Taxes paid		2,755	5,721
Net GST paid/(received)		241	(453)
		49,114	**52,053**
Net operating cash inflows	**D3**	**21,213**	**13,383**
Cash flows from investing activites			
Cash was provided from:			
Sale of property, plant and equipment		64	211
		64	**211**
Cash was applied to:			
Purchase of property, plant and equipment		21,433	14,523
Purchase of intangibles		529	1,592
		21,962	**16,115**
Net investing cash inflows/(outflows)		**(21,898)**	**(15,904)**
Cash flows from financing activites			
Cash was provided from:			
Loans borrowed		5,170	8,650
		5,170	**8,650**
Cash was applied to:			
Dividend paid		4,000	6,300
Payment of lease liabilities		331	57
		4,331	**6,357**
Net financing cash inflows/(outflows)	**D4**	**839**	**2,293**
Net increase/(decrease) in cash held		154	(228)
Cash and cash equivalents at 1 July		220	448
Cash at 30 June		**374**	**220**

Notes to the Financial Statements

About this report



Reporting Entity

Port Nelson Limited (Port Nelson) 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 marine services including pilotage, towage, navigation aids, berths and wharves; container terminal and cargo handling services; slipway services, cargo logistics including warehousing and distribution, investment properties and supply chain and 4PL solution services at the port of Nelson and within the wider Nelson, Tasman, and Marlborough regions.

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.

The financial statements are presented in New Zealand dollars rounded to the nearest thousand. The financial statements were authorised for issue by the Directors on 28 September 2021.

Notes to the Financial Statements

Information that is considered material and relevant to the users of these 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.

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.

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.

Accounting Policies

Apart from a policy change to revalue Property, Plant and Equipment (see note B1) there have been no changes in accounting policies during the financial year disclosed in the Financial Statements. Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of Covid-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. New Zealand was in lockdown at Alert Level 4 from 26 March to 27 April and then remained in lockdown at Alert Level 3 until 13 May.

During the 2021 year, revenue continued to be impacted by the uncertainty in global supply chain, resulting in a reduction in both total cargo and container volumes. In addition, operational efficiency was severely impacted by ship omissions and delays.

At 30 June 2020 due to the market disruption and lack of transactional data during Level 4 lockdown, there was a heightened level of uncertainty concerning the valuations for assets held at fair value. This uncertainty decreased in 2021 and the valuation for assets held at fair value reflected a return to 'normal' long term growth rates of 1.75% (2020: 0.75%) and a reduction in Discount Rates to prior levels. See note B5 for further details of valuation assumptions used.

Critical Judgements and Estimates

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.

Port Nelson has two cash-generating units (CGUs): Port Operations and Property.

The Property CGU consists solely of investment property that is measured at fair value. See B5 for assumptions included in the fair value of these assets

The Port Operations GCU consists of Property, Plant and Equipment and Intangible assets. See B1 and B5 for assumptions included in the fair value of these assets.

A. Revenue and Expenses

A1. Revenue

	2021	2020
	$000	$000
Port operations		
Marine	10,326	9,373
Cargo Handling and Container Terminal	38,067	37,251
Warehousing and Distribution	15,080	14,043
Gain on Sale of Assets	26	164
Lease Income	150	151
Total Port Operations	**63,648**	**60,982**
Property		
Lease Income and Licences	5,937	5,467
Fair Value Adjustment of Investment Property	3,925	295
Total Property	**9,862**	**5,762**
Total Revenue	**73,510**	**66,744**

Recognition and Measurement

Operating Revenue

Revenue is recognised over-time as Port Nelson performs the service and the client simultaneously benefits from that service. Progress towards complete satisfaction of each service is estimated based on the service portion performed to the customer, determined using the percentage completion method.

Revenue is measured based on the service price specified in the specific customer contract. Due to the way our contracts are negotiated and structured the stated contract price for each service performed reflects the value transferred to the customer There are no material variable consideration, financing or non-cash components to consider in determining the transaction price.

Revenue derived from customers that do not have contracts with Port Nelson is not considered significant and therefore has not been separately disclosed.

Property lease revenue is accounted for on an straight line basis. Rentals are payable in advance.

Maturity analysis of Operating Lease Revenue

	2021	2020
Due within 1 year	4,825	4,965
Due between 1 to 2 years	4,195	4,457
Due between 2 to 3 years	3,795	3,906
Due between 3 to 4 years	3,465	3,523
Due between 4 to 5 years	2,770	3,181
Due over 5 years	17,218	18,995
Total non-cancellable operating lease revenue	**36,268**	**39,027**

Future Receivables under Operating Leases

Non-cancellable operating leases represent undiscounted future expected lease receipts arising from the leasing of Port Nelson property.

A2. Other operational and property expenses

	2021	2020
	$000	$000
Operational		
Audit Fees - Current Year	74	74
Bad Debts Written-Off	25	10
Contract Services	1,320	1,361
Directors Fees	252	247
Donations and Sponsorship	112	126
Electricity	859	779
Freight	6,258	8,911
Fuel	862	995
Impairment of Assets	-	665
Noise Mitigation Expenses	238	(127)
Plant Hire	782	1,059
Rates	448	432
Repairs and Maintenance	3,939	3,870
Warehouse Lease	305	333
Other Operating Expenses	7,640	5,872
Total operational	**23,115**	**24,607**
Property		
Electricity	17	19
Impairment of Assets	-	135
Plant Hire	2	2
Rates	224	213
Repairs and Maintenance	35	116
Other Property Expenses	409	482
Total property	**687**	**967**
Total other operational and property expenses	**23,802**	**25,574**

Recognition and Measurement

Fair Value of Assets

At each reporting date Port Nelson reviews the carrying amount of its tangible and intangible assets to determine whether those assets are carried at fair value. If any such variation exists, the recoverable amount of the asset is estimated in order to determine the extent of the change in fair value (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 any loss is recognised against the revaluation reserve for that asset. Where the loss is greater than the balance in the revaluation reserve, the excess loss is expensed through the profit or loss.

A3. Net Financing costs

	2021	2020
	$000	$000
Finance revenue	0	(1)
Finance costs	3,114	2,983
Finance cost of qualifying assets	(516)	(265)
Net financing costs	**2,598**	**2,717**

Recognition and Measurement

Finance Revenue

Finance revenue represents interest revenue received. This is recognised on a time proportion basis using the effective interest method.

Finance 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, applying a capitalisation rate of 3.95%, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use. Borrowing costs included in the cost of qualifying assets during the year are calculated by applying a capitalisation rate of 3.75 per cent to expenditure on such assets.

A4. Taxation

	2021	2020
	$000	$000
Provision for Taxation		
Current Tax	4,257	3,247
Adjustment to current tax in prior periods	244	(78)
Deferred Tax	(832)	(1,129)
Tax expense	**3,669**	**2,040**
Profit from Continuing Operations	16,701	10,194
Tax at 28%	4,676	2,854
Prior Year Adjustment	51	-
Non-Deductible Expenses	41	16
Non-Taxable Income	(1,099)	(128)
Reduction in Deferred Tax on buildings	-	(702)
Tax expense	**3,669**	**2,040**

Recognition and Measurement

Current Tax

The income tax expense for the financial year is the tax payable on the current financial year'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

	PP&E	Other	Total
	$000	$000	$000
2021			
Opening Balance	20,764	(2,304)	18,460
Charged to Profit and Loss	(862)	29	(832)
Charged to Equity	-	870	870
Balance at 28%	**19,814**	**(1,312)**	**18,498**
2020			
Opening Balance	10,548	(1,807)	8,741
Charged to Profit and Loss	(1,025)	(104)	(1,129)
Charged to Equity	11,241	(393)	10,848
Balance at 28%	**20,764**	**(2,304)**	**18,460**

Deferred Tax

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 only if it is probable that future taxable amounts will be available to utilise those temporary differences.

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.

Imputation Credits to Shareholders

	2021	2020
	$000	$000
Imputation credits available to shareholders for future use	**32,549**	**30,177**

B. Key Assets

B1. Property, plant and equipment

	Operational Land and Buildings	Property Land and Buildings	Wharves	Plant, Furniture, Fittings and Equipment	Infrastructural Assets	Dredging	Work in Progress	Total
	$000	$000	$000	$000	$000	$000	$000	$000
Cost or fair value								
At 30 June 2019	**96,592**	**44,770**	**41,877**	**83,281**	**22,188**	**3,652**	**1,228**	**293,588**
Additions and Transfers	1,382	(565)	-	1,219	761	-	13,526	16,323
Disposals	(15)	-	(58)	(4,115)	(700)	-	-	(4,888)
Impairment Charges	(639)	(135)	(26)	-	-	-	-	(800)
Revaluation Surplus	19,064	15,290	34,499	-	-	-	-	68,853
At 30 June 2020	**116,384**	**59,360**	**76,292**	**80,385**	**22,249**	**3,652**	**14,754**	**373,076**
Additions and Transfers	379	-	-	10,480	1,167	-	8,069	20,095
Disposals	-	-	-	(750)	-	-	-	(750)
Impairment Charges	-	-	-	-	-	-	-	-
Revaluation Surplus	-	-	-	-	-	-	-	-
At 30 June 2021	**116,763**	**59,360**	**76,292**	**90,115**	**23,416**	**3,652**	**22,823**	**392,421**
Accumulated depreciation								
At 30 June 2019	**(1,217)**	**(328)**	**(4,278)**	**(43,040)**	**(4,132)**	**(45)**	**-**	**(53,040)**
Depreciation expense	(701)	(134)	(2,029)	(4,235)	(553)	(45)	-	(7,697)
Transfers	(46)	46	-	-	-	-	-	-
Disposals	3	-	22	3,897	392	-	-	4,314
At 30 June 2020	**(1,961)**	**(416)**	**(6,285)**	**(43,378)**	**(4,293)**	**(90)**	**-**	**(56,423)**
Depreciation expense	(753)	(176)	(3,304)	(4,184)	(586)	(45)	-	(9,048)
Disposals	-	-	-	681	-	-	-	681
At 30 June 2021	**(2,714)**	**(592)**	**(9,589)**	**(46,881)**	**(4,879)**	**(135)**	**-**	**(64,790)**
Net book value								
Net book value 30 June 2019	95,375	44,442	37,599	40,241	18,056	3,607	1,228	240,548
Net book value 30 June 2020	114,423	58,944	70,007	37,007	17,956	3,562	14,754	316,653
Net book value 30 June 2021	**114,049**	**58,768**	**66,703**	**43,234**	**18,537**	**3,517**	**22,823**	**327,631**

Port Nelson has completed independent seismic assessments on all of its buildings in accordance with the Building Act and Nelson City Council's Policy for Earthquake-prone, Dangerous and Unsanitary Buildings. At balance date there are 3 buildings deemed earthquake-prone. Seiemic strengthening of 1 building is underway. A decision on the remaining 2 buildings will be made in the next 12 months.

Right-of-Use Assets

	2021	2020
	$000	$000
Opening Balance	608	23
Additions and Transfers	296	641
Depreciation Expense	(314)	(56)
Closing balance at June 30	**590**	**608**

Right of Use Assets

The right of use assets consist of log moving equipment and ISO (International Organisation for Standardisation) tanks used to transport wine and other cargoes.

For applicable leases, right-of-use assets have been recognised and included in Plant, Furniture and Equipment lines as per the table to the left.

B1. Property, Plant and Equipment (continued)

Recognition and Measurement

In prior years Property, Plant and Equipment, except land, buildings, wharves and infrastructural assets were stated at valuation taken over from the Nelson Harbour Board on 1 October 1988 and subsequent additions at cost.

In 2021 Port Nelson changed its accounting policy such to value all Property, Plant and Equipment at fair value. Cost incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefit or service potential associated with the item will flow to Port Nelson and the cost of the item can be reliably measured.

Dredging is not amortised, apart from consents, which are amortised over their life. The cost of maintaining the dredged depth is expensed.

Changing in Accounting Policy

As at 30 June 2021, Port Nelson has changed its accounting policy from carrying some classes of Property, Plant and Equipment at historical cost less depreciation and impairment to carrying all classes of Property, Plant and Equipment at fair value. In line with the Auditor General comments in the results of the 2019/2020 audit of the Port Companies, Port Nelson considers that it is more appropriate to use fair value in operational asset valuations and to assess the fair value based on the expected cash flows to be generated. This provides up-to-date financial information to stakeholders and allows for greater compatibility across the port sector. The classes of assets this impacts are plant, furniture and equipment, capital dredging, infrastructure and work in progress. Port Nelson determines fair value by reference to NZ IFRS 13. Recognition at fair value represents a change in accounting policy for these asset classes.

Valuation Basis

Choice of Valuation Technique

Port Nelson has previously used a range of valuation techniques to measure the fair value of Property, Plant and Equipment. In 2021 Port Nelson has moved to measuring all Property, Plant and Equipment as a single unit using the income-based approach. Port Nelson believes that valuing the assets based on future cash flows (the income approach) is the most appropriate technique to use to assess fair value. In assessing the present value, the cash flows have been aggregated across all assets as they are, in effect, interdependent and cannot be meaningfully be separated into individual units. Therefore, a single valuation has been estimated.

The value is based upon cash flows and approximates the price that a willing buyer or seller would pay for the company's combined Property, Plant and Equipment assets. The Port's Property, Plant and Equipment are all categorised as Level 3 in the fair value hierarchy.

Valuation Measurement

The assets 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 profit or loss. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings. Further details on the fair value measurement is included in note B5.

	Years
Plant, Furniture and Equipment	4-51
Wharves and Berths	3–76
Infrastructural Assets	10-51
Buildings	8–56
Intangible Assets	3-41

Recognition and Measurement Depreciation

Depreciation is written off depreciable assets on a straight line basis over the estimated economic lives of the assets.

B2. Intangible Assets

	2021	2020
Computer Software and Licences	$000	$000
Cost		
Opening balance at 1 July	7,249	5,634
Additions	529	116
Disposals	(458)	-
Additions - Capital Work in Progress	94	1,499
At 30 June	**7,414**	**7,249**
Accumulated Amortisation		
Opening Balance at 1 July	(4,760)	(4,454)
Amortisation for the period	(251)	(306)
Disposals	458	-
At 30 June	**(4,553)**	**(4,760)**
Net book value	**2,861**	**2,489**

Recognition and Measurement

Intangible Assets

Intangible assets, comprised of software and licences, have finite useful lives and are measured at cost less accumulated amortisation and any accumulated impairment losses.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Port Nelson are recognised as intangible assets only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and if Port Nelson intends to and has sufficient resources to complete development and to use or sell the asset.

Directly attributable costs that are capitalised as part of the software include employee costs. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Subsequent to initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses.

The amortisation expense of intangible assets is included in the Depreciation and amortisation expense total disclosed in the Statement of Comprehensive Income. There are no material contractual commitments for the Acquistion of intangible assets at balance date.

B3. Investment Properties

	2021	2020
	$000	$000
Opening Fair Value of Investment Property	25,484	25,185
Additions/Reclassifications	-	4
Revaluations (recognised in property revenue)	3,925	295
Closing Fair Value of Investment Property	**29,409**	**25,484**

Recognition and Measurement

Investment Property

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.

Valuation Basis

Investment properties are revalued every year. Investment properties were valued on 30 June 2021 by Ian McKeage, Registered Valuer, FNZIV, FPINZ of Telfer Young. The valuer's have recent experience in the location and category of the item being valued. Further detail on the fair value measurement is included in note B4.

B4. Capital Commitments

	2021	2020
	$000	$000
Commitments for Capital Development	5,904	15,291

Recognition and Measurement

Capital Commitments

Capital commitments at balance date consist of four significant projects (2020: nine). Material projects in 2021 include the re-development of the log yard, and the reconstruction of Main Wharf North.

B5. Fair Value Measurements

Recognition and Measurement

The valuation of Property, Plant and Equipment and Investment Property requires estimation and judgement. For Investment Property at each reporting date, the independent valuation reports are subject to internal review by the management team. The review focuses on checking material movements and ensuring all additions and disposals are captured. A summary report on valuation movements is provided to the Board and full copies of the valuer's reports are available to Directors.

For Property, Plant and Equipment that are measured using an income based model, utilising a discounted cashflow at each reporting date, the significant assumptions are considered by both management and the Board and sensitivity analysis is performed. Valuations are categorised within a three tier fair value hierarchy table based upon the observability of valuation inputs.

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 inputs: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices, or indirectly, derived from prices.

Level 3 inputs: Inputs for the asset or liability that are not based on observable market data, that is, unobservable inputs.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following tables summarise the valuation approach and key assumptions used by the valuers to arrive at fair value.

Valuation Approach	Description of Valuation Approach
Sales Comparison Approach	A valuation methodology whereby the subject property is compared to recently sold properties of similar features with fair value determined through the application of positive and negative adjustments for their differing attributes.
Income Capitalisation Approach	A valuation methodology which determines fair value by capitalising a property's sustainable net income at an appropriate, market derived capitalisation rate with subsequent capital adjustments for near-term events, typically including letting-up allowances for vacancies and pending expiries, expected short-term capital expenditure and the present value of any difference between contract and market rentals.
Discounted Cashflow	A valuation methodology which determines fair value by discounting estimated future cashflows to net present value.

B5. Fair Value Measurements (continued)

The key assumptions used to measure the fair value of Property, Plant and Equipment and Investment Property classified as level 3, along with their sensitivity are as follows:

Measurement of Property, Plant and Equipment as a single unit

The Port has assessed that its Property, Plant and Equipment assets work together as a single unit to generate cash flows. The key premise of this assumption is that all assets within Property, Plant and Equipment are, in effect, interdependent and cannot be meaningfully be separated into individual units. For example, the shipping channel, wharves, land behind the wharves and associated infrastructure enables the port to exist. As a result the Port has elected to measure all Property, Plant and Equipment as a single unit for the purposes of fair value.

Impairment assumptions

The Port Operations CGU consists of Property, Plant and Equipment and Intangible assets. The Property, Plant and Equipment discounted cashflow assumptions included below are also the assumptions for the Port Operations CGU impairment model.

Sensitivity Analysis

The calculation of the value in use for the Port Operations CGU is most sensitive to the inputs for cargo volumes, container throughput and the post-tax discount rate. Cargo volumes and container throughput are influenced by several factors that are difficult to predict, in particular nature, export market conditions. The post-tax discount rate is an estimate of Port Nelson's weighted average cost of capital and is influenced by several external factors such as the risk-free rate and inflation.

Significant unobservable inputs	Sensitivity of change	Valuation Impact
	%	$000
Post-tax discount rate	0.5	(22,801)
	2.5	(108,614)
Log Volumes	(5)	(12,191)
	(15)	(28,293)

The sensitivity of the valuation model to log volumes, and discount rate, where all other inputs remain constant, is shown in the table to the left.

B5. Fair Value Measurements (continued)

Asset Classification	Valuation Approach	Significant Unobservable Inputs	Range of Unobservable Inputs	Relationship of Unobservable Input to Fair Value
Property, Plant and Equipment/ Port Operations CGU	Discounted Cashflow	Capital Expenditure	The Port has used the historical capital expenditure, adjusted for known differences in asset management plans.	The higher the capital expenditure the lower the fair value.
		Discount rate	7.50%	The higher the discount rate the lower the fair value
		Terminal growth rate	2.4%	The higher the forecast volumes the higher the fair value.
		Cargo and container volumes	The Port has used forecast container volumes reflecting historical levels	The higher the forecast volumes the higher the fair value.
		Ship visits	Based on forecast cargo volumes and container throughput, historical levels for non-Port Nelson visits and known differences	The higher the forecast volumes the higher the fair value.
		Port logistic customer numbers and warehouse utilisation	Forecast customer numbers, storage volumes and pricing.	The higher the forecast volumes the higher the fair value.
Investment Property – Land Subject to Ground Leases	Sales comparison approach	Freehold land value per s/m	$291 - $701	The higher the price per s/m the higher the fair value
		Ground rental rate	5.15% - 5.50%	The higher the rental rate versus the contract rent, the lower the fair value
	Discounted Cashflow	Discount rate	7.00% - 7.25%	The higher the discount rate the lower the fair value
		Long term land value escalation per annum	1.75%	The higher the land value escalation the higher the fair value.
Investment Property - Land Freehold	Sales comparison approach	Freehold land price per s/m	$330 - $458	The higher the price per s/m the higher the fair value
Investment Property - Buildings Freehold	Income capitalisation approach	Rental per s/m	$202 - $258	The higher the rental per s/m the higher the fair value
		Capitalisation rate	6.75%	The higher the capitalisation rate the lower the fair value.
	Discounted Cashflow	Discount rate	6.75%	The higher the discount rate the lower the fair value
		Terminal Cap rate	8%	The higher the terminal capitalisation rate the lower the fair value

C. Financial Risk Management

C1. Financial Instruments

Port Nelson's operations expose it to a variety of financial risks which it seeks to manage through the application of its Treasury Policy. This policy provides guidance to management on carrying out appropriate financial risk management activities including the use of derivative financial instruments to manage this risk. Port Nelson does not enter into speculative trades.

Key Financial Risks

Interest Rate Risk

Port Nelson is exposed to interest rate risk on the cash flows arising from its variable rate borrowings. The Board does not consider there is any significant exposure to interest rate risk on its investments.

Required Hedging Levels on Borrowings

Term	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
Up to 2 years	40%	100%
2 years to 4 years	20%	80%
4 years to 8 years	0%	60%

Port Nelson's interest rate exposures are managed in accordance with specific borrowing parameters outlined in the Treasury Policy which requires the fixing of interest rates for specified portions of borrowings based upon the term remaining and outlines the approved derivative instruments that can be used to do this.

Port Nelson currently manages this risk by using Interest Rate Swaps (IRS) which swap the floating rate exposure on a notional value of borrowings for a fixed rate.

Financial Derivatives

Port Nelson designates certain derivatives as hedging instruments in respect of interest rate risk in cash flow hedges. Such derivatives are held at fair value.

At the inception of the hedge relationship, Port Nelson documents the nature of the risk being hedged, the economic relationship between the hedged item, the instrument for effectiveness testing along with its risk management objectives for undertaking various hedge transactions.

The hedged item creates an exposure to pay interest on the notional value, settled at intervals prescribed by the hedge agreement. The interest rate swap on the same notional value creates an equal and opposite interest receipt and a fixed interest payment, therefore creating an exact offset for this transaction resulting in a net fixed interest payable.

Assessment of hedge effectiveness is done at inception of the hedge, at each subsequent reporting date (30 June and 31 December) and upon a significant change in the circumstances affecting the hedge effectiveness requirements.

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. The gain or loss relating to any ineffective element is recognised immediately in the profit or loss.

Sensitivity Analysis

Interest rate change	Impact on profit	Impact on equity
	$000	$000
-100bp	253	(1,541)
+100bp	(253)	1,446

The table to the left illustrates the potential profit and loss and equity impact for reasonably possible interest rate movements, with all other variables held constant, based on Port Nelson's financial instrument exposure at the balance date.

C1. Financial Instruments (continued)

The table below details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period, including those with forward start dates, designated in to cash flow hedging relationships.

	Average contracted fixed interest rate		Notional principal value ($'000)	
Cash flow hedges	**2021**	**2020**	**2021**	**2020**
	%	%	$000	$000
Less than 1 year	3.8	5.9	19,000	4,000
1 to 2 years	2.8	3.8	7,000	19,000
2 to 5 years	2.2	2.6	36,000	31,000
5 years +	3.0	2.3	10,000	22,000
			72,000	**76,000**

Credit Risk

Port Nelson is exposed to credit risk on its cash and cash equivalents from the possibility of counter-parties failing to perform their obligations. This risk is represented by the carrying value in the Statement of Financial Position. We consider this risk to be immaterial.

Trade and Other Receivables

	2021	2020
	$000	$000
Trade Receivables	9,929	10,725
Related Party Receivables	7	37
Expected Credit Losses	(97)	(27)
Total Trade Receivables	**9,838**	**10,735**

Recognition and Measurement

Trade and Other Receivables

Trade and Other Receivables arise in the ordinary course of Port Nelson's business and are initially valued at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. Port Nelson invoices for services as they are performed, generally on a monthly basis. They are non-interest bearing and have payment terms of generally the 20th of the month of receipt of invoice, but vary on a case-by-case basis between 7-45 days.

Trade Receivables derived from customers that do not have contracts with Port Nelson are not considered significant and therefore have not been separately disclosed.

Expected Credit Losses

The provision for Expected Credit Loss represents impairment losses on contracts with customers.

C1. Financial Instruments (continued)

Trade Receivables Past Due

	2021	2020
	$000	$000
Less than three months	2,348	1,884
Greater than three months	142	87
Total Past Due	**2,490**	**1,971**
Trade Receivables Not Past Due	7,348	8,764
Total Trade Receivables	**9,838**	**10,735**

Estimated Credit Loss

	2021	2020
	$000	$000
Less than three months	-	-
Greater than three months	97	27
Total Past Due	**97**	**27**
Trade Receivables Not Past Due	-	-
Total Trade Receivables	**97**	**27**

Recognition and Measurement

Impairment of Trade Receivables

Port Nelson always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The allowance is estimated by reference to past default experience of the debtor, an analysis of the debtor's current financial position as well as forward looking information. Port Nelson writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. None of the trade receivables that have been written off are subject to enforcement activities.

Estimated Credit Loss

The table to the left details the risk profile of trade receivables based on Port Nelson's provision matrix. As Port Nelson's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between Port Nelson's different customer base.

Currency Risk

Port Nelson is exposed to currency risk on purchases of plant and equipment from overseas which it undertakes from time to time.

Management actively monitor the currency risk exposure and will enter into forward foreign exchange contracts to hedge this risk where required by the Treasury Policy. As at balance date Port Nelson had no forward foreign exchange contracts (2020: $0.13m).

Liquidity Risk

Liquidity risk is the risk that Port Nelson will encounter 'difficulty' raising funds to meet commitments as they fall due.

Liquidity risk is managed by maintaining sufficient cash. This is achieved by ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Multi-Option Credit Facility

Port Nelson has financing arrangements with Westpac Banking Corporation totalling $100,000,000 for a multi-option credit facility made up of a three facility agreement. The first is for a funding facility of $40,000,000 commencing July 2021 expiring July 2022. The second is for a funding facility of $40,000,000 commencing July 2021, expiring July 2023. The third is for a funding facility of $20,000,000 commencing July 2021, expiring July 2024. Security for the multi-option credit facility is by a first and exclusive debenture charge over the assets and undertakings of Port Nelson. Port Nelson classifies its borrowings as non-current liabilities.

C1. Financial Instruments (continued)

Recognition and Measurement

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.

Trade and other payables are recognised at fair value on receipt of goods and services. Payment normally occurs within 30 days. These are non-interest bearing.

Maturity analysis for the principal amounts of non derivative financial instrument liabilities based upon the contractual maturities

	Weighted Average Effective Interest Rate	Due within 1 year	Due between 1 to 2 years	Due between 2 to 5 years	Due over 5 years	Total
		$000	$000	$000	$000	$000
2021						
Borrowings	3.75%		40,000	35,670		75,670
Trade and Other Payables		3,696				3,696
Finance Lease Commitment		327	295			622
Total Borrowings		**4,023**	**40,295**	**35,670**	**-**	**79,988**
2020						
Borrowings	3.95%		38,200	32,300		70,500
Trade and Other Payables		5,143				5,143
Finance Lease Commitment		195	230	187		612
Total Borrowings		**5,338**	**38,430**	**32,487**	**-**	**76,255**

Fair Value of Financial Instruments

Port Nelson considers that the carrying values of financial assets and financial liabilities recorded in these financial statements approximate their fair values.

The financial instruments carried at fair value are the Interest Rate Swaps which are valued at a total liability of $2.852m (2020: liability of $6.035m) at balance date. These are considered a Level 2 valuation in the Fair Value Hierarchy defined in Note B5.

The valuation of Interest Rate Swaps is derived from the New Zealand Financial Markets Association closing rates on the revaluation date. From these rates the mark to market is calculated to reflect the net present value of the remaining fixed and floating cash flow obligations.

D. Other Information

D1. Provisions

Employee Benefit Liabilities

	2021	2020
	$000	$000
Accrued Pay	875	453
Annual Leave	1,513	1,369
Long Service Leave	301	279
Other Benefits	436	611
Total Employee Benefit	**3,125**	**2,712**
Current	2,874	2,468
Non-Current	252	244
Total Employee Benefit	**3,126**	**2,712**

Recognition and Measurement

Provisions

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and other benefits in the period the related service is rendered. 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.

Noise Mitigation Provision

	2021	2020
	$000	$000
Current	174	191
Non-Current	407	196
	581	**387**

Noise Mitigation Provision

Port Nelson reviews its Noise Mitigation provision as the mitigation work is undertaken. The provision relates to Stages One, Two and Three. The Noise Variation within the Nelson City Resource Management Plan became operative on the 23rd February 2012. Port Nelson has quantified the costs of its obligation as at 30 June 2021.

Port Nelson recognises it has an obligation to assist with noise mitigation works for noise-affected properties adjacent to the port. Noise mitigation costs may include building work, professional fees, building consents, preparation of drawings and project management.

Noise-affected properties are separated into three stages based on the level of port noise received. For properties in Stage One, those properties that are exposed to night time Ldn (day/night average sound level) from port generated noise of 65 dBa or more, Port Nelson is required to make offers to either fully fund noise mitigation work or to purchase the properties. There are 15 properties designated Stage One properties, and at 30 June 2021, seven properties have had this obligation met (2020 - seven properties). After balance date an additional property from Stage One was purchased by Port Nelson. During the financial year, the contour lines were redesginated by the Council, which saw an additoinal three properties move into Stage One, and two properties moved from Stage One to Stage Two. For properties in Stage Two, those properties that are exposed to night time Ldn from port generated noise of between 60 to 64.9 dBa area, Port Nelson has offered to contribute up to 50% of noise mitigation costs. For properties in Stage Three, those properties that are exposed to night time Ldn from port generated noise of between 55 to 59.9 dBa, property owners can request Port Nelson to provide technical advice and a contribution of up to 50% of noise mitigation costs. There is no obligation on Port Nelson to make offers for the purchase of either Stage Two or Stage Three properties.

D2. Issued Capital

At 30 June 2021 Port Nelson has 25,415,404 ordinary shares. All shares are fully paid and have no par value. All shares carry equal voting rights and the right to share in any profit on winding up of the company. None of the

D3. Reconciliation of Net Operating Cash Flows

	2021	2020
	$000	$000
Net profit	**13,033**	**8,154**
Add non-cash items:		
Depreciation and amortisation	9,300	7,986
Net movement in deferred tax/hedging reserves	(832)	(1,129)
Impairment of assets	-	800
Net Calwell Basin dredging and stabilisation provision	-	(13)
Appreciation of Investment Property	(3,925)	(295)
Net Noise Mitigation provision	194	(185)
	4,737	**7,164**
Add (less) movements in other working capital items:		
Trade and other receivables	897	(1,125)
Inventories	(83)	175
Prepayments and accruals	313	(254)
Assets held for resale	15	(15)
Trade and other payables	(1,501)	2,353
Current employee benefit entitlements	406	44
Tax payable	1,745	(2,552)
	1,792	**(1,374)**
Add (less) items classified as investing or financing activities:		
Non-current employee benefit entitlements	8	7
Non-current movement lease liabilities	209	474
Net gain on sale of assets	5	346
Capital creditors	1,429	(1,388)
	1,651	**(561)**
Net cash inflow from operating activities	**21,213**	**13,383**

D4. Reconciliation of Financing Activities

	2021	2020
	$000	$000
Cash Movements		
Movement in borrowings	5,170	8,650
Dividend paid	(4,000)	(6,300)
Payment of lease liabilties	(331)	(57)
Net cash inflow from financing activities	**839**	**2,293**

D5. Leases as a Lessee

Leases as a Lessee

	2021	2020
	$000	$000
Expenses related to short-term leases	1,120	1,406
Expenses related to low-value assets	36	34
Total cash outflow for leases *Includes above plus additional equipment for logging operations*	1,201	1,476
Interest expense on lease liabilities	45	6

Recognition and Measurement

Leases as a Lessee

Port Nelson has recognised short-term leases, and leases of low-value as expenses using a straight-line basis over the lease term. Short term leases relate to warehouse equipment and logging equipment. Low value expensed leases relate to photocopiers. The total cash outflow includes additional equipment for logging equipment.

Finance Lease Commitments

	2021	2020
	$000	$000
Within one year	355	227
Between one and five years	304	442
Minimum finance lease payments	**659**	**669**
Future finance charges	(37)	(57)
Total Finance Lease Liabilities	**622**	**612**
Included in the financial statements as:		
Trade and other payables	327	195
Lease Liabilities	295	417
Total Finance Lease Liabilities	**622**	**612**

Finance Leases

Finance leases relate to plant and equipment with lease terms of between one to three years.

D6. Related Party Disclosures

		2021	2020
		$000	$000
Nelson City Council	Services Provided by Port Nelson	141	153
	Services Provided to Port Nelson	925	864
	Accounts Receivable by Port Nelson	7	37
	Accounts Payable by Port Nelson	14	16
	Dividends Payable by Port Nelson	1,250	1,250
	Dividends Paid by Port Nelson	2,000	3,150
Tasman District Council	Dividends Payable by Port Nelson	1,250	1,250
	Dividends paid by Port Nelson	2,000	3,150
Nelmac	Services Provided to Port Nelson	32	-
	Accounts Payable by Port Nelson	2	-

Nelmac – Nelmac is 100% owned by Nelson City Council and is therefore a related party.

D6. Related Party Disclosures (continued)

Directors

G Dangerfield

Mr G Dangerfield is Chair of the Risk and Assurance Committe of Ministry for Primary Industries (MPI) who receive and provide biosecurity services from/to Port of Nelson. The amount paid to MPI was $8,831 (2020:$5,450) The amount received from MPI was $57,544 (2020 $58,020), and $125 was receivable at year end (2020: $Nil). Mr Dangerfield is also an advisor to the Office of the Auditor General who via Audit New Zealand provide audit services to Port of Nelson. The amount paid to Audit New Zealand was $102,229 (2020:$99,532) and $23,488 was payable at year end)

P Lough

Mr P Lough, who retired as Director of Port Nelson in September 2020, is a Director of Genera Limited that incurs a fumigation facility fee from Port Nelson. The amount received from Genera Limited was $23,517 for the year (2020: $22,599), and $104 was receivable at year end (2020: $260).

B Monopoli

Ms B Monopoli is an Associate Principal of Findex (NZ) Limited that provides tax and accounting services to Port Nelson. The amount paid to Findex was $30,395 for the year (2020:$20,254) and $15,008 was payable at year end (2020: $1,898). Ms Monopoli is also a Trustee of Light Nelson Trust that receives sponsorship from Port Nelson. The amount paid to Light Nelson Trust was $5,750 for the year (2020: $nil), and $nil was payable at year end (2020: $nil).

T Reynish

Mr T Reynish is a director of Quality Marshalling Limited, a cargo marshalling company owned by Port of Tauranga Limited. The amount paid to Quality Marshalling Limited for the year was $0 (2020: 11,500) and $nil was payable at year end (2020: $nil). The amount received from Quality Marshalling Limited was $11,005 for the year (2020: $nil), and $6,059 was receivable at year end (2020: $nil).

K Wallace

Ms K Wallace is a member of the Risk and Assurance Committee of Ministy of Primary Industries (MPI) who receive and provide biosecurity services from/to Port of Nelson. The amount paid to MPI was $8,831 (2020:$5,450) The amount received from MPI was $57,544 (2020 $58,020), and $125 was receivable at year end (2020: $nil).

Key Management Personnel

H Morrison

Mr H Morrison is a Director of the Nelson Regional Development Authority which is supported by Nelson City Council and Tasman District Council and other businesses. There were no transactions with Port of Nelson during the year.

D Wehner

Mr D Wehner was a Director of Nelson Malborough Institute of Technlogy Limited (NMIT) up until February 2020. NMIT leases land from Port Nelson and provides training courses to Port Nelson. The amount received from NMIT was $4,261 for the year (2020: $nil), and $nil was receivable at year end (2020: $nil). The amount paid to NMIT was $1,500 (2020: $4,748) for the year, and $nil was payable at year end (2020: $nil).

M MacDonald

Mr M MacDonald is a Director of Nelson Airport Limited that provides public services to Port Nelson. The amount paid to Nelson Airport Limited was $624 for the year (2020: $1,699), and $nil was payable at year end (2020: $nil).

Details of compensation paid to key management personnel and Directors during the financial year

	2021	2020
	$000	$000
Salaries and Other Short-Term Benefits	1,761	1,754

D7. Contingent Assets and Liabilities

As at balance date there were no contingent assets or liabilities (2020: $nil).

D8. Events After Balance Date

Holding Company

On 17 and 18 May 2021 Tasman District Council and Nelson City Council resolved to establish a Holding Company, to hold the two Councils shareholdings in Port Nelson and Nelson Airport. The Holding Company will be established in 2022 and Port Nelson and Nelson Airport will be subsidiaries of the new company. No financial impact is expected on either subsidiary through the establishment of the Holding Company, however a number of benefits are expected including the potential for reduced borrowing cost through the use of the Local Government Funding Agency.

Nelson Slipway

Port Nelson is currently in the planning phase of redeveloping the slipways of the Port. There are currently two slipways that operate on the Port, the Calwell Slipway, which slips ships of over 100 tonnes and the Nelson Slipway, which slips ships under 100 tonnes. The new project will redevelop the Nelson Slipway area to create finger wharves, which will allow a new marine travel lift to operate, having a capacity of 400 tonnes. The facility will include a new environment treatment facility, and contaminated silts will be removed from the harbour basin adjacent to the slipways.

In order to complete this development on 19 July 2021, Port Nelson entered into a conditional sale and purchase agreement to acquire the assets of Nelson Slipway Limited, for $2.48 million. Nelson Slipway Limited currently operates the Nelson Slipway and holds a long-term lease of the Port land and seabed related to the asset. The accounting for the transaction has not yet been finalised due to the recent acquisition date and as such it is impractical to make any further disclosure. The accounting for this transaction will be finalised for inclusion in the financial statement for the year ended 30 June 2022.

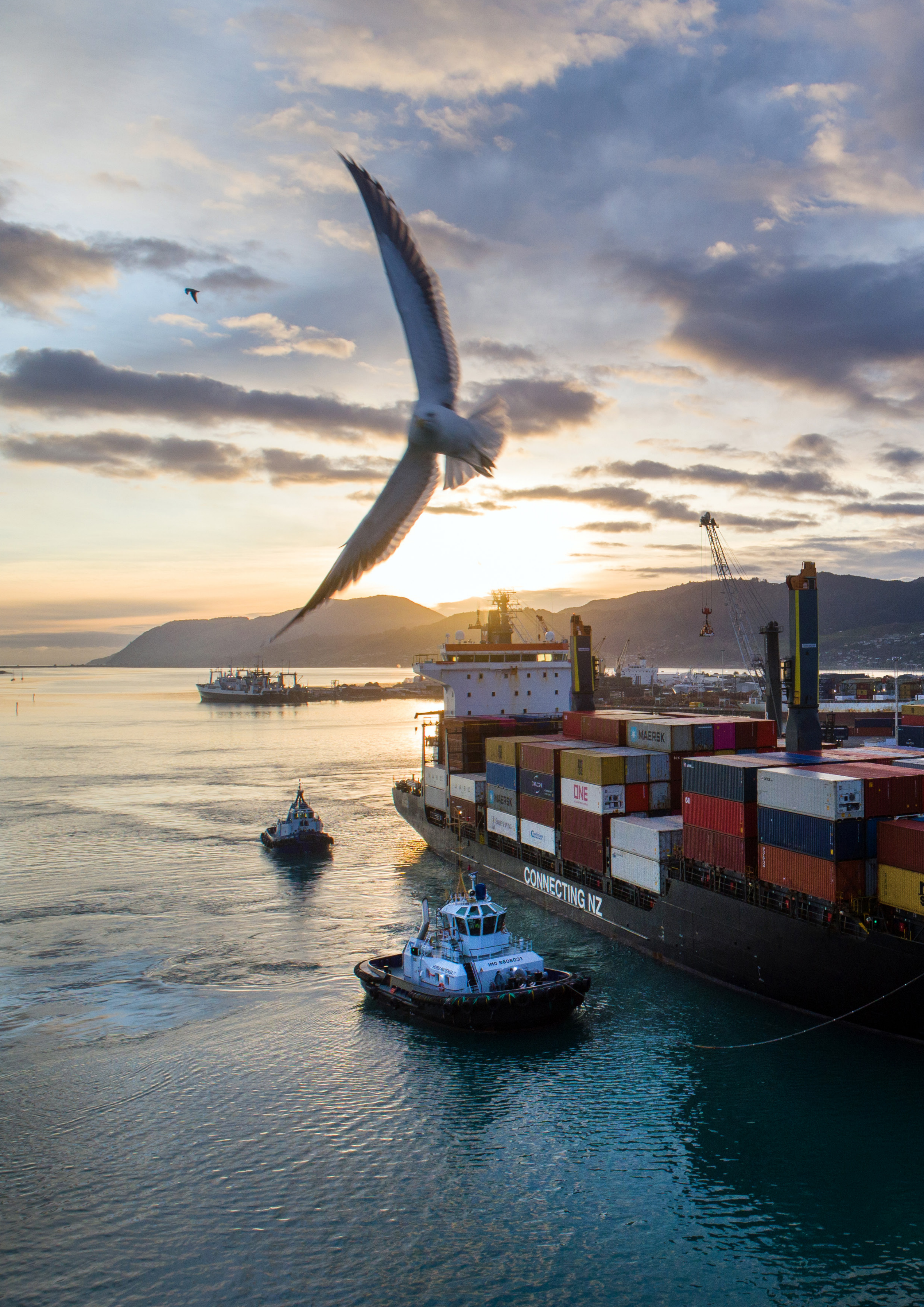
Disposal of Land

A conditional sale and purchase agreement was signed with the Cawthron Institute Trust on 13 August for the sale of 6,000 square metres of Port land. It is expected that the conditions will be completed and that the agreement will become unconditional in the year ended 30 June 2022. A gain on disposal of approximately $200,620 will be recognised in the year ended 30 June 2022.

The sale of land to the Cawthron Institute Trust is part of a broader plan to develop a Science and Technologly Precinct on Port land.

COVID-19

On Tuesday, 17 August 2021 at 11.59pm, New Zealand moved to Alert Level 4 following the detection of a positive case of COVID-19 in the community. Although this Alert Level escalation creates a level of uncertainty, there has been no material impact on the key assumptions of estimates made in preparation of these financial statements.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"To the Port Nelson team, congratulations and thank you for what you have achieved this past year and the professional way you have overcome the many challenges."

PORT NELSON

Port Nelson
Nelson 7010, New Zealand