PORT NELSON

2020 Annual Report


“The team at Port Nelson did an outstanding job as essential workers during COVID-19, keeping operations moving safely while protecting a frontline border to New Zealand.”
SPIRIT OF CANTERBURY

Contents

Overview

Our Purpose

To facilitate regional prosperity

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

Our Customers	Our Environment	Our People	Our Community	Our Shareholders
Provide leading port and logistics operations and drive supply chain innovation	Improve our environment	Build and keep safe a high-performing team	Improve our community	Deliver strong returns to our shareholders

2020 Performance

	2020	2019	2018	2017	2016	2015
Operations						
Cargo throughput (cargo tonnes)	3.3m	3.9m	3.6m	3.1m	2.7m	2.6m
Container throughput (TEUs – twenty-foot equivalent units)	116,162	119,074	121,483	108,106	96,497	90,422
Shipping tonnes (GRT – gross registered tonnes)	9.6m	11.1m	12.2m	10.9m	9.7m	9.2m
Vessel visits (more than 100 GRT)	760	804	887	805	821	747
Employees (FTEs – full-time equivalents)	233	214	210	195	167	145
Financial ($ millions)						
Revenue	66.7	70.7	67.2	58.4	45.5	42.2
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	20.9	30.5	27.1	21.7	17.6	17.3
Earnings before interest and taxation (EBIT)	12.9	22.9	20.1	16.7	12.2	12.2
Net interest expense	2.7	2.9	2.6	2.2	1.6	1.8
Taxation	2.0	4.8	4.0	3.7	2.7	2.9
Net profit after taxation (NPAT)	8.2	15.3	14.1	10.8	5.3	7.5
Dividend declared	4.8	5.5	5.5	6.5	4.8	5.7
Capital expenditure	16.1	19.2	15.2	27.3	15.3	3.6
Term debt	70.5	61.9	55.6	47.2	29.5	22.1
Total non-current tangible assets	342.1	265.7	253.0	241.8	188.9	179.7
Shareholder return metrics						
Earnings per share (cents)	32.1	60.0	55.3	42.7	20.7	29.6
Dividend per share (cents)	18.9	21.6	21.6	25.6	18.9	22.4
Net assets per share	$9.85	$7.49	$7.23	$6.89	$5.77	$5.81
Shareholder equity as % of total assets	70.2%	68.5%	69.5%	68.6%	73.1%	79.0%
Return on average shareholders' funds	3.7%	8.2%	7.8%	6.7%	3.6%	5.1%
Return on average assets	4.1%	8.4%	7.7%	7.3%	6.3%	6.4%

2020 Performance

70.2%
Shareholder Equity as % of Total Assets

3.3 million
Cargo Throughput
Tonnes

$8.2 million
Net Profit
After taxation

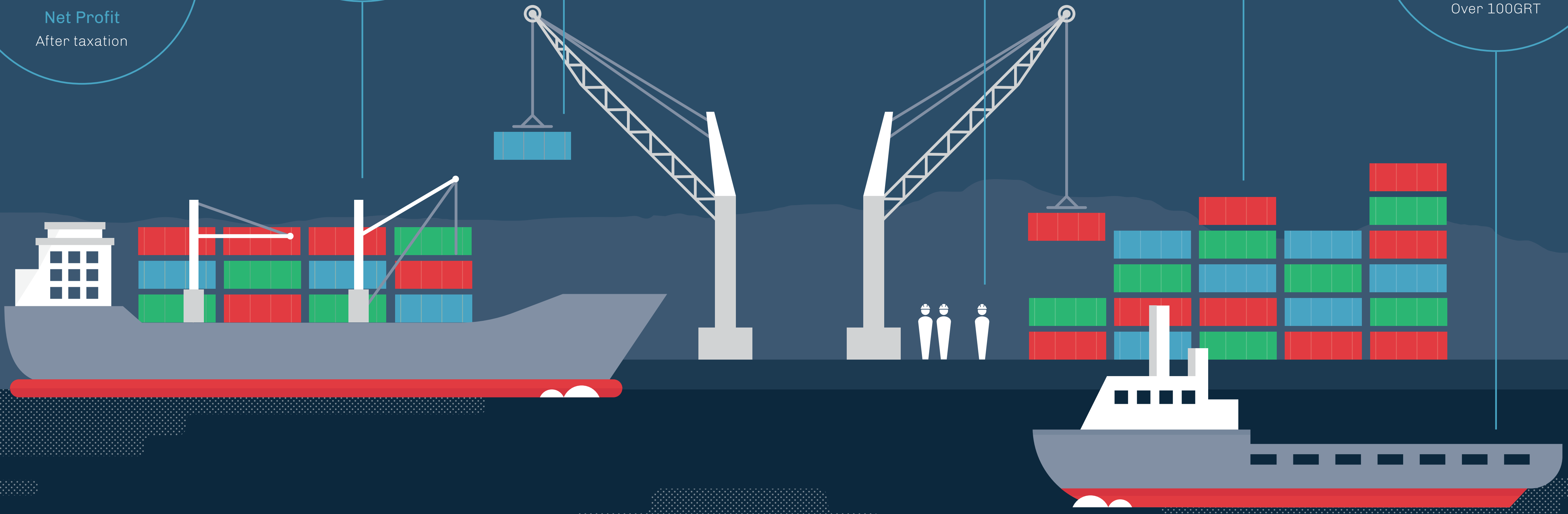
9.6 million
Shipping Tonnes
GRT (millions)

233
Employees
FTEs

116,162
Container Throughput
TEU

3.7%
Return on Average Shareholder Funds

760
Vessel Visits
Over 100GRT



Chair & CEO Report

Phil Lough

Chair

Hugh Morrison

CEO

2020 certainly threw some challenges at the Port. The most significant of these was the impact of the COVID-19 pandemic. Reduced cargo volumes, increased operating costs and a depressed global economy impacted on the 2020 financial year and will continue to impact on the next few years.

There were positives: the team at Port Nelson did an outstanding job as essential workers, keeping operations moving safely while protecting a frontline border to NZ; we also saw the outstanding response by exporters in Te Tauihu - apples, kiwifruit, wine, logs, processed timber, fishing, to name a few, who did such a courageous job adjusting to the challenges of COVID-19 and keeping exports flowing. The Port has come out of 2020 stronger and looks forward to playing an even more significant part in supporting the prosperity of Te Tauihu in 2021 and beyond.

"The Port has come out of 2020 stronger and looks forward to playing an even more significant part in supporting the prosperity of Te Tauihu in 2021 and beyond."

30%

Of the volume across the Port is made up by logs

Customers

The Port's total cargo for 2019/20 was 3.3 million Revenue Tonnes (RT), down 12% on budget and down 15% on 2018/19. Our container volumes were 116,162 Twenty Foot Equivalent Units (TEUs), down 5% on budget and 3% on last year.

Logs made up approximately 30% of the volume across the Port, well down on previous years. The key reason for the lower volumes was the dramatic increase in the export of logs from central Europe as a result of a beatle infestation, as well as the close down of the forestry industry during the COVID-19 lockdown. These forestry pressures, plus a slow down in the Asian markets, also fed through to lower processed timber volumes being exported.

Apples and kiwifruit had a strong year, reflecting what was a bumper harvest in Tasman. Full credit to the growers and packers who did an outstanding job of adjusting to COVID-19 working conditions right at the time of harvest.

Wine was a strong perfomer for volume across the Port. Again, full credit to the wine growers and processors for adapting to COVID-19 at the height of the harvest. The increased volume reflected the strong harvests in 2019 and 2020, as well as a growing realisation of the cost efficiencies, quality and environmental benefits of the QuayConnect service between Marlborough and the Port.

A key change within the Port this year was the reorganisation of our logistics and warehousing business units. We have now consolidated all our warehousing and packing services under the banner of QuayPack. Coupled with an improved technology platform, we are now able to offer a greater range of services to the region. This consolidation has enabled QuayConnect to now focus on providing supply chain solutions and a 4PL service. QuayConnect is also underpinned by a new technology platform, Pelorus, which is developed on blockchain principles.

Environment

The Port's carbon emissions were down on last years, however much of this relates more to lower cargo volumes than to particular initiatives. We have commenced the electrification of our small vehicle fleet. The new crane that has been purchased will provide material fuel efficiency improvements and allow conversion to an electric engine once technology for the Liebherr cranes is better proven.

A new Environment Policy has been established which confirms the Port's commitment to zero carbon by 2050. Our certification to ISO 14001 was retained with an acknowledgement by the auditor of our move from a compliance regime to an objectives driven approach.

Reducing the Port's impact on the community in terms of noise, dust and traffic, continues to be a major focus for the Port. There are some significant improvement projects planned for the 2021 year in these areas.

People

Adapting to COVID-19 has dominated much of our year from a People and Safety perspective. We are very proud of the way our team responded to the challenge of working in a COVID-19 environment. As essential workers we were aware of the privilege of having steady work, while also carrying the risks of working at a Port receiving first call international vessels. As we write this report we continue to have strict work practices in place to ensure the safety of this community and our people from exposure to COVID-19 through arriving international vessels.

Through the COVID-19 lockdown period, the Port was pleased to be able to offer assistance to over 40% of our people and their families. In addition, as landlords we were able to provide relief to our tenants.

Critical Safety Risk Management (risks that could cause fatalities or seriously harm a worker) and Fatigue Management remain key improvement initiatives that we will complete in the new financial year.

Community

We completed a study this year through BERL, into the wider impact of the Port on the Community. This demonstrated that the Port facilitates the employment of 31% of people working in Te Tauihu.

Beyond this economic contribution the Port was active this year in supporting a range of critical charity organisations and community events. These included: Haulashore Island Trapping Project, Tasman Mako, Nelson Bays Youth Team Racing Association, Cawthron Institute Year 13 mussel workshop, Run Like Tanya, Nelson Bays Football Refugee Programme and the Marine Settlement programme – Bay Dynamics.

Another area that the Port supports the community is in the operation of the Slipway. This business is not a profitable operation for the Port, however the services offered are critical to the survival of the Nelson Marine Engineering industry and to an extent, the Nelson/Tasman fishing industry.

Shareholders

Reflecting the lower cargo volumes, 2020 saw revenue down 9% on budget at $66.7m, and Net Profit After Tax (NPAT) down 26% on budget at $8.2m.

Capital expenditure was at an unusually high level this year at $16.1m, with the purchase of a new crane and the Main Wharf North reconstruction the main contributors. Payments for these assets continue into the 2021 financial year, along with the proposed redevelopment of the log yard.

The Port was pleased to declare a fully-imputed, full-year dividend of $4.0m for the 2020 financial year. This is in addition to a special dividend of $0.8m paid earlier in the year arising from the 2019 year's result.

We continue our work on the resilience of the Port to natural disaster events. This work will inform our Infrastructure Master Plan, which looks out at the Port's physical needs up to 2050. This plan in turn will advise us on the value and nature of future capital investments required by the Port.

There were some significant changes in Directorships at the end of this year. Tim King resigned from the Board as a result of his election to Mayor of Tasman District Council. Tim has provided outstanding service to the Port over his 14 years. New Directors joining the Board are, Jon Safey and Paul Zealand, both local to the region and with significant industry and commercial experience. Early in the new financial year, I will step down as Chairman after 20 years on the Board. It has been a period of huge change for the Port and I thank all those who have been involved in assisting the Port and myself on this succesful journey. I will be succeeded by Geoff Dangerfield as Chairman. Geoff brings significant leadership experience as well as public sector management knowledge. The Port will further prosper under his and this Board's guidance.

> "Through the COVID-19 lockdown period, the Port was pleased to be able to offer assistance to over 40% of our people and their families. In addition, as landlords we were able to provide relief to our tenants."

Looking Back in Time

In this Annual Report we have taken the opportunity to look back over the history of the Port. It is important to remember the legacy and responsibility that this Port has in developing and sustaining the Te Tauihu community. We hope you find the history interesting.

The Year Ahead

Our recently approved Annual Plan for 2021 has as its theme, 'Tighten the belt and lace up the running shoes'. This reflects both the need to continue to look at our costs, given the tougher economic climate, as well as recognising there are plenty of opportunities for growth and improvement in front of us.

It is a privilege for the Port and its staff to be in a position to support the growth and prosperity of Te Tauihu, and in particular to work with the exporters and importers of our region. We also thank the shipping lines for their interest in serving the region and for the positive working relationships we have with them.

To our staff; what a year! Your commitment and professionalism was highlighted through the COVID-19 challenge and we thank you.

Looking Back at our Proud Legacy

The rich history of Port Nelson is the foundation that's helped shape the vibrant 'gateway to the world' as we know it today. And it all started from modest beginnings...

With its long, protective boulder bank forming a natural breakwater and haven, what we now know as Nelson had long been home to Māori before the European settlers arrived in the 1840s. Early accounts of Wakatu – meaning 'a standing place or shelter for canoes' - described the trading of fish and produce. An ancient pa site occupied since around 1450 called Matangi Awhio, was located in the Port vicinity at a place now known as Auckland Point.

In the early days of European settlement in Nelson, vessels had to navigate the narrow passage between Haulashore Island and Fifeshire Rock and entry to the calm waters of the Haven was only possible in fine weather at high tide.

As Port Nelson developed, it was awarded official Customs capacity in 1842, and declared a 'Port of Entry' the next year. In 1856 New Zealand's first railway was created to link the Dun Mountain Copper Mining Co, to the wharf, opening in 1862.

By the late 1850's Nelson's trade was particularly buoyant, significant amounts of sawn timber, wool and apples were exported from the Port. Work on a new public wharf, Railway Wharf, started in 1875.

However, Nelson's growing reputation began to be threatened as silt from the Waimea River impacted the depth of the harbour entrance, and a number of vessels grounded. This impacted on trade volumes. To tackle this challenge the first Nelson Harbour Board was established in 1901. One of its first major jobs was to make the approach to the port more straightforward.

In 1903, work began for a cut 76m wide and 4.4m deep at low water spring tides through the Boulder Bank. A new dredge - named John Graham, after the Board Chairman - was specially built, with tug Gordon purchased from the Government primarily to assist in its work.

It was with great ceremony that the new passage's opening was officially marked in 1906, including a ribbon-breaking entrance from the Union Company steamship Rotoiti, with 800 passengers aboard. Fast forward to 1969 and the Cut was expanded to successfully accommodate increasing vessel sizes.

1840

New Saltwater baths built in 1876. Cross's or Burford's wharf is in the near distance with the Albion and Railway wharves in the distance.

Nelson Provincial Museum, *The Port Nelson*, Nelson Historical Soc. 326803

After a good deal of negotiation, in 1919 the Board finally purchased the Railway Wharf and buildings, and 15ha of foreshore. Dredged spoil from deepening the harbour was used to reclaim land and by 1930 areas of reclamation had created space for the installation of a number of bulk storage tanks.

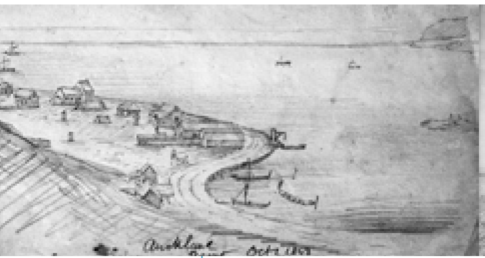
With wool, fruit, dairy products, hops, vegetables and frozen meat all significant exports, Port Nelson was reporting healthy results.

Milestones during the 1930's included the construction of a slipway in 1936 on the northern edge of the reclamation, and the arrival two years later of the first tanker to discharge bulk petrol.

The early 20th Century was not without adversity. 1913 saw a major strike by wharf workers, the effects of two World Wars took their toll, and the property sustained slumping caused by the 1929 Murchison earthquake. In addition, there were the effects of the Great Depression and centralisation of shipping which saw Nelson closed to overseas cargo vessels from 1943 to 1951, except for tankers.

Main Railway wharf at height of the turn of the century.
Horse and carriages and the Port steam train are on the hard stand, horse and drays on the wharf. Centre is the large Bond Store and Harbour Board Offices in front. Note the large escarpment or slip on the hillside.

Turnbull Library, *'Wharf at Nelson'*, ref. 1/1-010975-G



1840 1850 1860 1870 1880 1890 1900 1910 1920 1930 1940

1843
Auckland Point, the first Port Nelson

1862
Nelson Lighthouse assembled on the Boulder Bank

c. 1870's
Railway wharf

1903
Dredge John Graham cutting its way through the Boulder Bank

1906
Steamship Rotoiti breaking the ribbon on opening 'The Cut'

1923
Building the new coal fired powerhouse

1940

The profile of land around the Port as we'd recognise it today owes much to the vision of former Managing Director William Henry Parr, QSE.

In 1948 he produced a report that called for massive development involving the reclamation of more land, a deeper harbour, widening and lengthening of the 'swinging basin', and creation of more cargo sheds and wharf space, including nearly 40 additional metres to the main wharf.

By 1957 a 41ha area earmarked for reclamation had been totally enclosed with gravel embankments. This reclamation phase was completed in 1967.

The creation of McGlashen Quay was also among the great advancements during this time, the first 172m of which opened in 1960.

Kingsford Quay was officially opened in 1970 to facilitate handling of bulk cargo such as fruit, logs, and sawn timber. That same year the Calwell Slipway opened for business. In 1976 Brunt Quay was completed, with an extension added by 1982 to make it a full overseas berth.

This era was not without its complications. In 1950, as the Port officially reopened to ocean-going ships, it coincided with a waterfront strike, during which armed services were brought in to handle cargo. In the late '70s early '80s there was public resistance to the construction of the cement silo which is still a prominent feature, and in 1986 controversy over proposals to move the wood chip pile caused mass protest. In addition, there was a further harbour workers' strike in 1987.

Despite this the Port continued to flourish with exports. But a sea-change was coming, with radical reform proposed by the Government.

That the sands of time were set to shift was signalled in a discussion paper by the Ministry of Transport in 1984, steering Ports towards commercialisation, with harbour boards dismantled. In 1988 Nelson City Council and Tasman District Council took joint ownership over the Port.

1983

Huria Matenga was launched

Vessel sizes:
Ships calling into the Port were growing in size and complexity so the Port's own vessels saw huge advancements.

To help their arrival, especially those used for the burgeoning wood chip trade, the 20m tug *WH Parr* joined the Port's ranks in 1972, giving the ability to handle ships up to 192m long. 1978 saw the addition of new pilot launch *Waimea* - the first high-speed planing hull launch used by a New Zealand authority.

In 1983 *Huria Matenga* was launched, trailblazing for its superb manoeuvrability.

Scows, brought apple cases from Mapua to Nelson where they were reloaded onto the overseas steamers by way of a hand-rolled conveyor belt.

Nelson grew to become the biggest seafood port in Australasia. In addition to fish, other major exports during the era of transition included logs, pip fruit, and processed forestry such as MDF – the first shipment of which left for Japan in 1988.

In 1999 a new Container Yard began operating after containers started to become a feature at the Port in the early 1990's. Redevelopments to increase capacity for growing container numbers have included the introduction of reefer towers, which started in 2016, and the introduction of the shuttle to transfer containers, with a larger workshop to accommodate empty container handlers, completed in 2017.

Being on the pulse of the region's economy, the company has innovated according to the changing landscape with additional packing, warehousing and sustainable transportation services through QuayPack and QuayConnect. Leveraging advances in IT has been key to progression. The innovative cargo visibility and booking platform Pelorus developed at the Port is just one example of this.

With increasing vessel sizes, measures are being taken to future proof, with a focus on resilience (read more on page 38).

Port Nelson recently demonstrated its capability as a lifeline to the Te Tauihu region by continuing to operate as an essential service throughout the nation's lockdown response to the COVID-19 global pandemic.

Even in 1979, W.H.Parr quoted in his book 'Port Nelson – Gateway to the Sea' "The Port had been – and still would be – the most vital factor in the economic prosperity of the district". The Port will continue to evolve as it responds to the needs of the community and its role as the region's gateway to the world.

1940 1950 1960 1970 1980

c.1940's
Nelson-Wellington passenger ferry Matangi loading wool brought to the Port by rail

1957
By 1957 the planned reclamation was totally enclosed with gravel embankments

1959
The reclamation progresses

1971
Almost there! The second-to-last phase of the reclamation before the second yacht basin and recreational area was reclaimed

2017
Patterson Logistics centre opened

Port Nelson's Contribution to the Te Tauihu Region

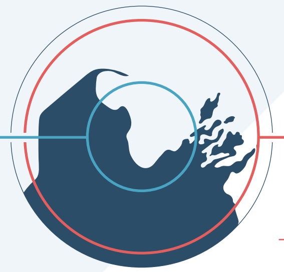
Port Nelson's Purpose is, To Facilitate Regional Prosperity – Kia āhei ki te kōkiri whakamua ki te taumata ā-rohe.

As we started 2020 a key question for the Port was to understand the extent of its current contribution to Te Tauihu, and how that may evolve going forward. To assist with this, Business and Economic Research Limited (BERL) was engaged to carry out an independent review. BERL's assessment looked at the economic and community benefits that accrues to the region as a result of the Ports existence.

Economic Impact Assessment

BERL found the presence of the Port supports 22,636 jobs (31% of the region's FTE) in the Nelson-Tasman-Marlborough region. BERL estimates that the operation of the Port touches around 25 to 30 percent of the regional economy. These jobs attract and keep people in the Nelson-Tasman-Marlborough region, and support a growing and vibrant community that has access to the resources it needs to thrive.

Wider Facilitated Activities



Nelson/Tasman

Employment

14,397 FTEs — 29% of regional FTEs

GDP

$1,389 Million — 23% of regional GDP

Nelson/Tasman/Marlborough

Employment

22,636 FTEs — 31% of regional FTEs

GDP

$2,260 Million — 25% of regional GDP

BERL estimates that the operation of the Port touches around 25 to 30 percent of the regional economy

Beyond Economic Impact

The Port's contribution and impact on the Community extends beyond a purely economic impact assessment.

BERL identified the following other areas of impact:

Purpose:
To facilitate regional prosperity
Kia āhei ki te kōkiri whakamua ki te taumata ā-rohe

Economic
- Economic impact assessment
- Enabling economic activity
- Build skills and capability of employees
- Financial return for shareholders (ratepayers)
- Strategic importance for resilience

Cultural
- Sports and cultural sponsorship
- A diverse workforce
- Recognising Tangata Whenua
- Healthy Workplace Culture

Social
- Strength of social licence to operate
- Contribute to water safety
- Support for social programmes
- Community resilience
- Safety and wellbeing of employees
- Public access to the Port
- Facilities on site

Environmental
- Sustainable management – meeting PNL policy objectives (maintain ISO certifications)
- Water quality
- Effects on neighbours (Noise levels, congestion)
- Recycling and waste
- GHG emissions
- Natural hazard resilience
- Impacts on sea life
- Participation and support of environmental initiatives

Future Scenarios

The BERL report, which was prior to the impact of COVID-19, also forecast what the region looks like in the future.

Using data from Statistics New Zealand, BERL forecasts employment to grow by 28% with the addition of 19,000 jobs within the Nelson/Tasman region and by 20% in Marlborough.

The agriculture sector is expected to grow 60% in the Nelson/Tasman region with horticulture projected to grow by 66%. Forestry is also expected to grow, more than doubling in size by 2044.

With the population and employment levels set to increase by 2044 along with GDP, it is forecasted that there will be an increase in demand for imports. In turn there will also be an increase in manufacturing and construction to support the increased industries which could also mean more non-agricultural exports through the Port.

The impact of COVID-19 is likely to impact the growth over the early years of this period, however the scale of increase remains applicable.

Facilitating and sustaining this growth requires a viable and efficient Port that is respectful of the community it serves and the environment in which it operates.

Our Customers

Ō tātou kiritaki

In a drive to both improve efficiencies and connect more closely with its customers Port Nelson restructured its logistics and warehousing operations in the 2020 financial year. The move see's all warehousing and packing services on the Port consolidated into one operation, QuayPack. Allowing QuayPack to expand its services and QuayConnect to focus more closely on offering even further innovative and optimal supply chain solutions.

QuayPack welcomes its new warehousing and packing services structure

Packing and warehousing services have been provided at Port Nelson for over 150 years, evolving over time to better serve the changing needs of its customers.

QuayPack was established over 20 years ago to service the export needs of the forestry sector, primarily the storage and packing of MDF, LVL and sawn timber. The business unit is an accredited Transitional Facility and undertakes the devanning of goods, ranging from plant and machinery, to personal effects from import containers.

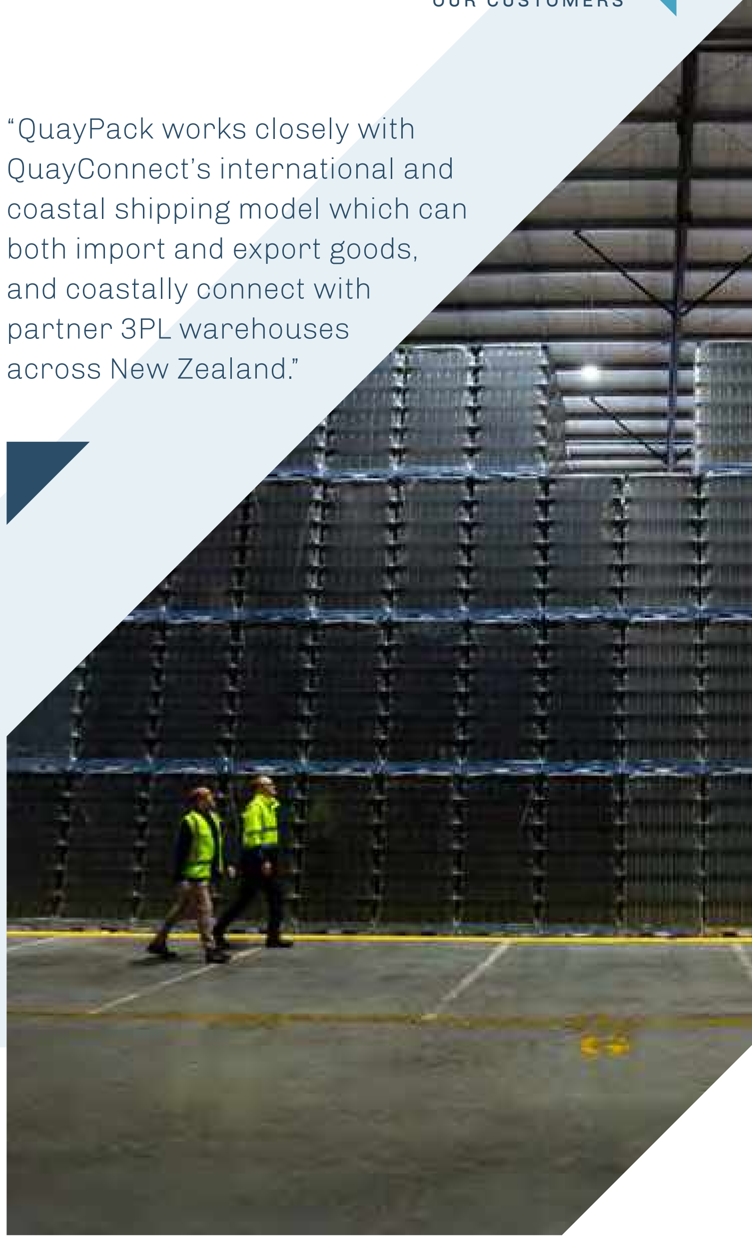
"Under the new structure QuayPack will be able to generate further efficiencies with its extended warehousing and service space totalling 34,325m2, as well as a better utilised plant and team," says Matt McDonald, General Manager of Operations. "The introduction of a new Warehouse Management System will also allow for greater business insights and assist in innovating processes to achieve efficiency gains," Matt adds.

"QuayPack is now not just a facility for devanning and exporting services, but also a warehouse management service that includes 3PL management," says Matt. "We work closely with QuayConnect's international and coastal shipping model which can both import and export goods, and coastally connect with partner 3PL warehouses across New Zealand.".

QuayPack's service offering has grown over the years to also include wine Flexitank fittings, a cost effective model to move wine in bulk. "Flexitanks are a sustainable method of transporting wine across the world. Containers are fitted with a large bladder which is then filled with wine and transported to its new destination where it is bottled and shipped to consumers," says Matt.

QuayPack has also appointed a new Operations Manager, Steve Speight. Steve has over 20 years' experience in the transport and logistics sector, and more recently was managing the Nelson branch for Toll Global Express. Steve and his family relocated to Nelson from Auckland early in 2018, and they believe it is one of the best decisions they have made. Steve joined the Port in the second week of the lockdown period amidst a record month for loading containers of wine for export.

"QuayPack works closely with QuayConnect's international and coastal shipping model which can both import and export goods, and coastally connect with partner 3PL warehouses across New Zealand."



QuayConnect looks to the future

When Port Nelson established QuayConnect, its supply chain logistics solutions operation, it revolutionised the way the Marlborough wine industry was serviced, helping customers not only to minimise costs and increase efficiencies, but also significantly reducing the impact on the environment.

In the past, underutilised ship movements, empty truck transfers and unnecessary storage stops had prevented customers from extracting value from the supply chain. Initiatives from QuayConnect, established in 2016, helped overcome this.

And now, with a recent move to separate its operations from those of QuayPack, QuayConnect's General Manager, Jaron McLeod says the business is poised to help customers import and export even smarter. The move allows QuayConnect to focus more closely on offering even further innovative and optimal supply chain solutions.

"The change means we're not directly involved with the physical side of the business now – ie the loading of containers / unloading of trucks and warehousing operation," says Jaron. "We now contract that service out to QuayPack as our warehousing provider in Nelson."

"You wouldn't usually expect a Port company, or even a warehousing company on a Port, to get involved in supply chain logistics, but by doing so, we've helped customers import and export more efficiently and effectively."

A recent example of such customer-focused innovations includes the introduction of ISO-tank containers - cylindrical stainless-steel shipping ready tanks capable of holding 26,000 litres, for export and import. These have been leased by Port Nelson to enable customers' export of bulk wine to Australia. QuayConnect has also organised the tanks to return to New Zealand full, with Australian wine heading back this way.

"We'll be moving 10 million litres of wine in each direction this way," adds Jaron. "There's actually no warehousing component at all. We coordinate all transfers, including truck movements and ocean freight. This is something we wouldn't have been involved in 12 or 18 months ago."

30-40%

Increase in QuayConnect's revenue over the 12 months

QuayConnect submitted its pitch for this business against much larger competitors with long-standing experience in the field, so its success was a real endorsement.

Other key areas for growth have been international shipping, for wine and other customers like O-I Glass, the global bottle and glass business (now called Visy Glass). Helping significantly in this space will be Pelorus, Port Nelson's innovative software technology, which has elements of Blockchain capability.

"Pelorus will give our customers a huge advantage," adds Jaron. "It aggregates data from multiple organisations right through the supply chain, removing the need for the transfer of many different spreadsheets. We move about 4,500 40ft containers of glass all around NZ for Visy Glass every year and through Pelorus we will be tracking every movement through the supply chain. Further developments will look at integration with shipping line software, and also that of other ports.

QuayConnect's improved solutions have also included utilising coastal shipping options rather than road transport. This helps save costs, as well as reduces the carbon footprint. "Carbon emissions from a ship moving down the coast are significantly less than a truck on the roads, or even rail for that matter, and it's also much cheaper," says Jaron. "As well as glass we've also started moving other commodities for customers like cardboard and screw caps for the wine industry. We're now planning to build into Pelorus a carbon calculation aspect to calculate usage."

As part of the deal for Visy Glass, QuayConnect's service also extends to overseeing deployment of the products to nine warehouses throughout the country. These warehouses have been identified by QuayConnect in strategic locations close to major customers, enabling products to be delivered quickly.

4,500

Containers of glass will be tracked by Pelorus as they move all around NZ every year

"QuayConnect's improved solutions have also included utilising coastal shipping options rather than road transport. This helps save costs, as well as reduces the carbon footprint."

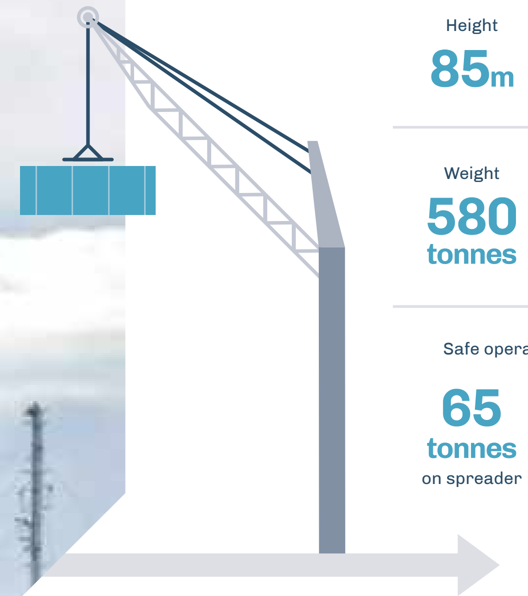
Improving Efficiencies

As the trend towards the use of larger vessels grows across the world, it's not just bigger wharves that are needed to accommodate them – the size of the cranes used to load and unload them also has to increase. It's with that in mind that Port Nelson is about to see the delivery of a brand new Liebherr crane with some impressive statistics:

Height	Reach
85m	58m
Weight	**Expected Life**
580 tonnes	30 years

Safe operating lift capacity

65 tonnes on spreader	102 tonnes on hook



40%

Of export cargo going through Nelson is containerised

In fact, to operate within its 85m height range, approval is necessary from the Civil Aviation Authority, given the proximity to the flight path for Nelson Airport. Lights will also be required in order to be visible to aircraft.

The purchase represents an investment of nearly $9 million, making it the most expensive piece of machinery on the Port.

"Since 40% of export cargo going through Nelson is containerised, a significant fleet of container handlers and cranes is required." says Container Operations Manager, Jonny Cook. "The push by shipping lines to use bigger vessels comes from a drive for economies of scale, environmental benefits and technology improvements. If Nelson does not service the optimal vessel size for our harbour, the region will experience increased costs of exporting and importing, increased shipping times and contribute to unnecessary carbon emissions."

As well as longer vessels, there is also a growing trend towards stacking containers higher on vessels. To ensure continued visibility for the crane drivers, the cab on the new machine will be 4.8m higher on the tower than those currently used. The new equipment will also increase lifting capacity, making it possible to load and unload two full containers at a time.

The crane is the same brand as the existing cranes. This allows the Port's training simulator to provide training ahead of the crane's arrival. In addition, maintenance requirements and parts will be similar with the existing crane fleet.

The move from general (known as break-bulk) to containerised cargo has been on-going since the 1990's. "Significant benefits come from the standardised sizes of containers, which slot together on vessels to assist with capacity and ease of loading," Jonny says "containerisation has also raised flexibility and efficiency because it makes it easier to deliver units of cargo to different parts of the world, rather than carrying an item in bulk which then needs to be redistributed from a hub port."

A six-week period has been assigned for assembly and familiarisation. This ties in well with the scheduled completion of Main Wharf North at the start of 2021 and the new year's cycle of cargo.

"For the fruit season - which for us means mostly apples, with kiwifruit later - the cargo starts to flow in March, but we begin preparing in late December, receiving empty refrigerated containers ready for export cargo," says Jonny. "This crane will be ready for that, operating fully from the new wharf by the time the fruit season begins."

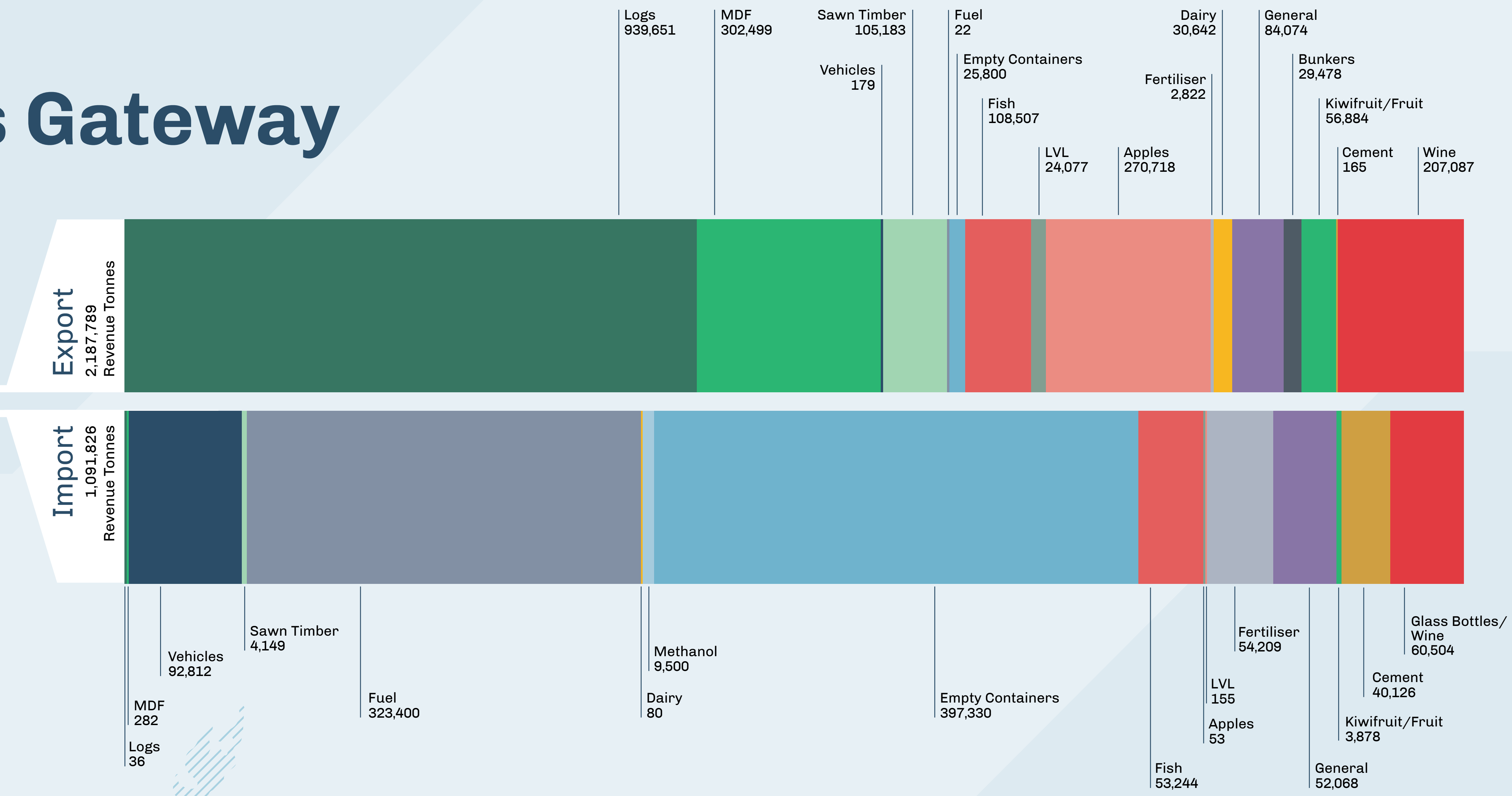
The Region's Gateway

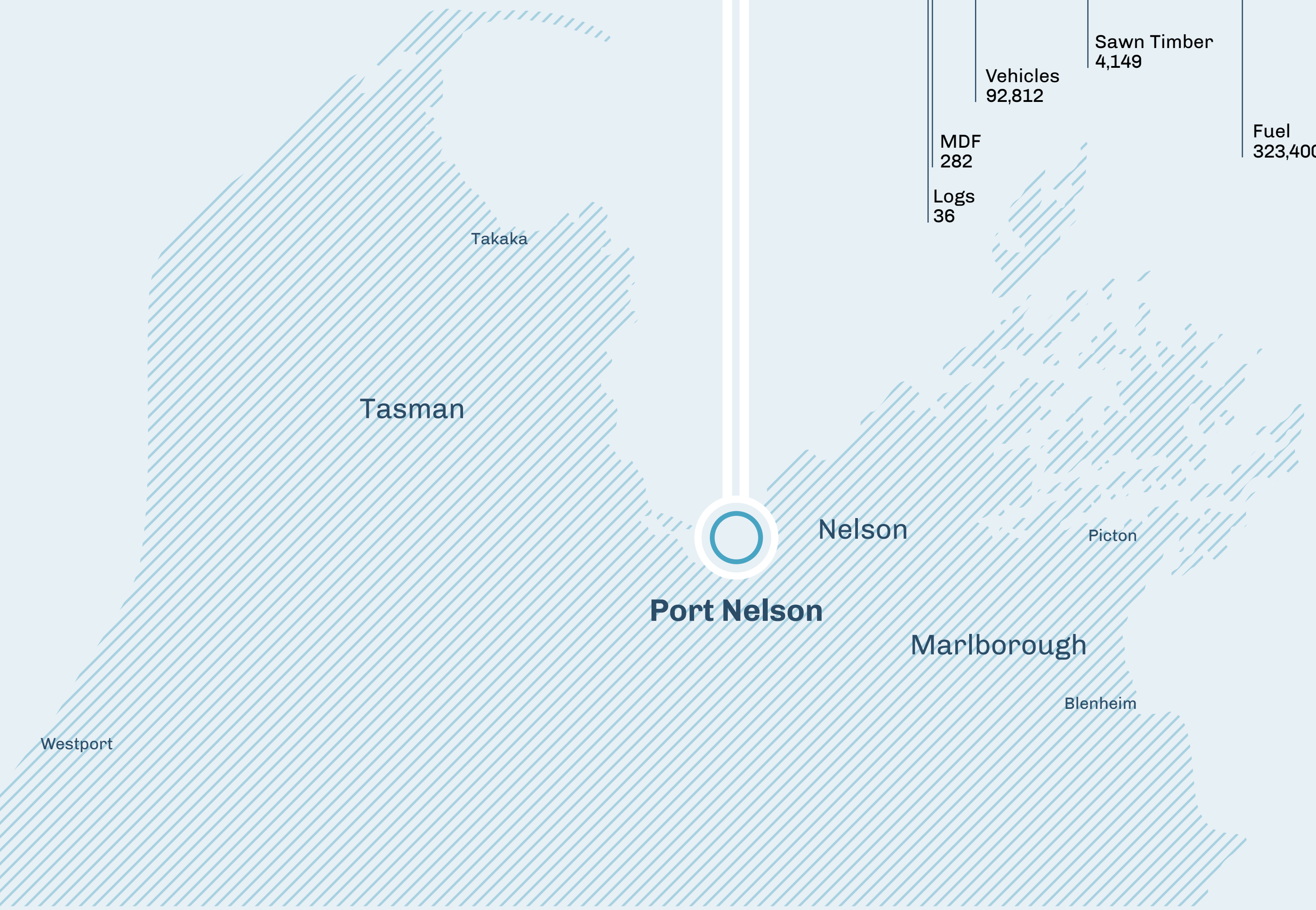
67%

Of Port Nelson's commodities are exported

33%

Of Port Nelson's commodities are imported





Port Nelson is the region's gateway to the world. Tasman and Marlborough districts produce a number of primary commodities which are exported to global markets. 67% of Port Nelson's volume are exported and 33% are imported.

Given its reasonably isolated location, the Port serves an extremely important function – to facilitate the region's prosperity. Major export commodities from the top of the South Island include forestry products (logs, sawn and processed lumber), seafood, pip fruit and wine. Port Nelson is the largest seafood processing port in Australasia, supporting and catering to the needs of some of New Zealand's main seafood companies and associated fishing fleets, including the engineering sector that supports the industry.

Nelson/Tasman is also the second-largest apple-growing region in the country, with approximately 28% of the total apple crop being produced here and exported around the world. Approximately 70% of New Zealand's wine is produced in Marlborough, making Port Nelson a vital link in the wine industry's supply chain. The main import commodities to Port Nelson are fuel and vehicles, both second-hand and new. Honda's national distribution plant is located in Stoke, Nelson.

The natural cargo catchment for Port Nelson is the top of the South Island, stretching as far southeast as Seddon and across to the West Coast.

Our Environment

Tō tātou taiao

Maintaining the Momentum for Change

The Port has a proud history of making improvements in its impact on the environment

Like all new change initiatives, the early phases provide good wins with the low hanging fruit plucked, however subsequent phases require more effort and investment. This is certainly true of Port Nelson's drive to minimise its environmental impact.

The Port has a proud history of making improvements in its impact on the environment:

- Port Nelson is the first and only Port in New Zealand to have a current ISO 14001 certification for its environmental management system. The system is a risk-based framework for managing environmental impacts from Port Nelson's business undertakings.
- Port Nelson's sustainable business model for QuayConnect plays its part in the sustainable New Zealand wine industry story, reducing the carbon footprint of the industry through logistics efficiencies, less trucks on the road, and minimised fuel use. This results in the removal of 180 tonnes of carbon per annum compared with the previous model. The result was acknowledged through winning the MfE Green Ribbon Award, being a finalist in the Deloitte Energy Excellence Awards, and award winner for the Chartered Institute of Logistics and Transport (CILT) Award for Innovation in the Transport and Logistics sectors.
- QuayPack has a fully electric forklift fleet inside the Patterson Logistics Centre.
- The Calwell Slipway addressed what was one of the most contaminated sites in the country. Port Nelson and the Ministry for the Environment remediated this site by stabilising approximately 33,000m3 of contaminated marine sediment.
- In 2010 Port Nelson developed the Port Nelson Noise Management Plan, which outlines the Port's commitment to the management and minimisation of noise from Port related activities, and to continue improvement in noise management. Since that time there has been a steady reduction in Port noise.

The next phase of the Port's environmental journey however requires a more rigorous approach to identify and target performance improvements. The Port's recent revision of its Environmental Policy and Environmental Management Plan, reflects this objectives-based approach.

2020 Financial Year Achievements

- Revised environmental policy implemented.
- ISO 14001 surveillance audit successfully completed.
- Policy of moving vehicle fleet to electric implemented.
- New crane purchased which will help with efficiencies in fuel use, and improved technology results in noise reduction.
- Major programs of work commenced to improve environmental outcomes including monitoring of both stormwater and dust, log yard redevelopment, stormwater upgrades, and improved log yard dust management.
- Recycling of packing used in the transportation of wine.

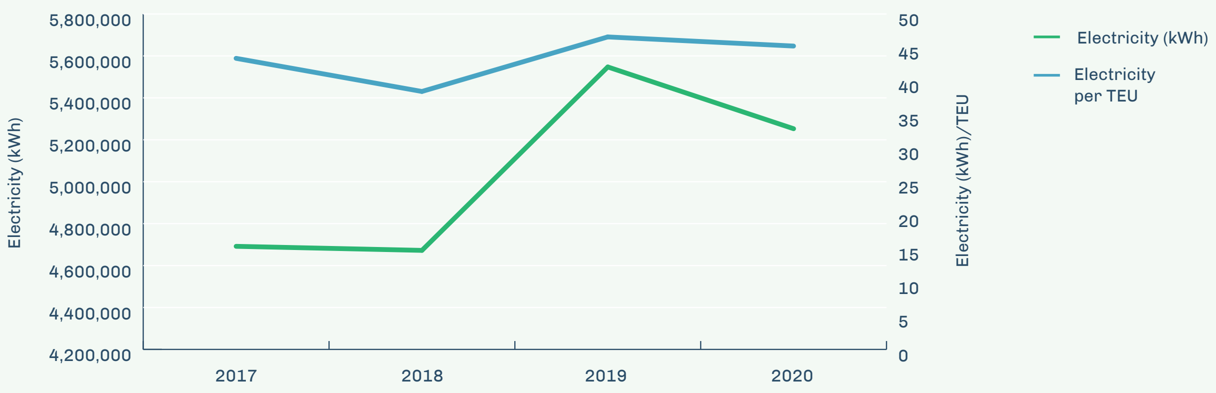
180

Tonne reduction in carbon per annum achieved through logistics efficiencies

Environmental Footprint

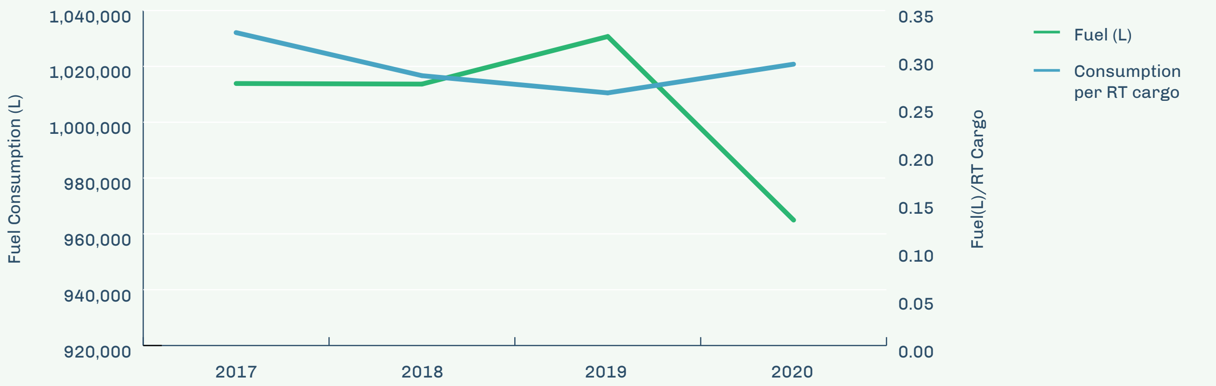
Electricity

Electricity consumption (kWh) per TEU 2017 – 2020



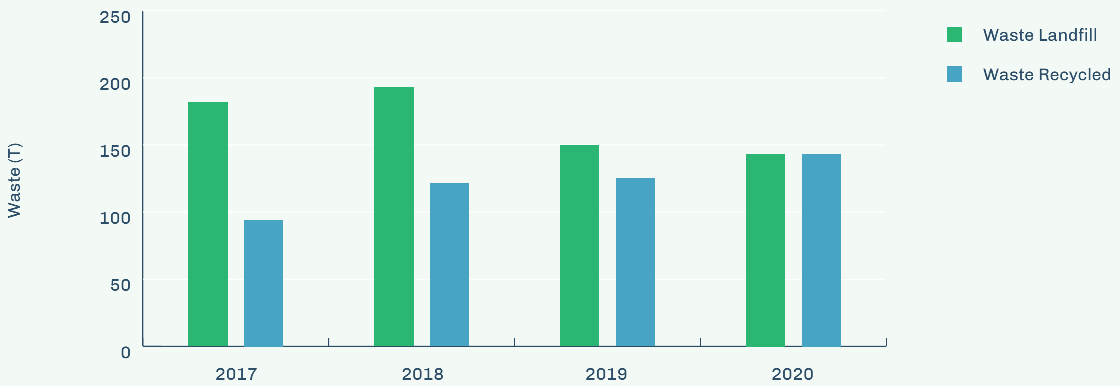
Fuel

Fuel Consumption (L) per Revenue Tonne of Cargo 2017 – 2020



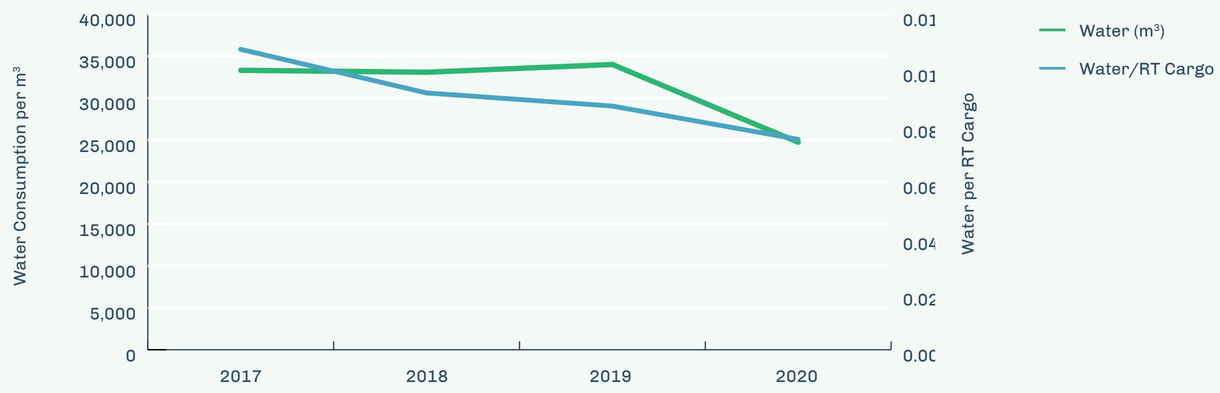
Waste

Waste to Landfill and Recycled 2017 – 2020



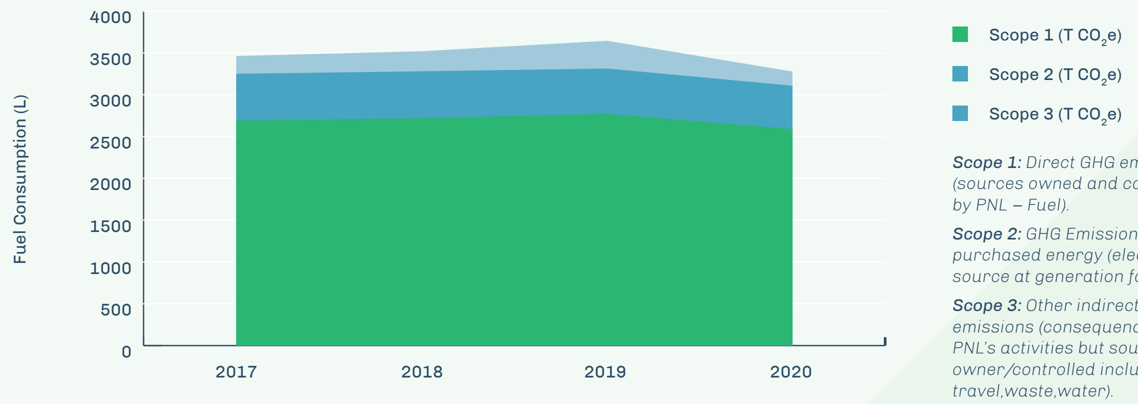
Water

Water consumption per Revenue Tonne Cargo 2017 – 2020



Total Carbon

Scope 1, 2, 3 and Total Carbon Emissions 2017 – 2020



***Scope 1:** Direct GHG emissions (sources owned and controlled by PNL – Fuel).*

***Scope 2:** GHG Emissions from purchased energy (electricity – source at generation facility).*

***Scope 3:** Other indirect GHG emissions (consequences of PNL's activities but source not owner/controlled includes travel,waste,water).*

What does this mean?

The data on the adjacent graphs tells two main stories. Firstly, the significant influence of the Port's trading volume on its carbon footprint – in 2019 the Port had its highest year for carbon emissions, however it was the most efficient year in terms of volume throughput for the carbon emissions. Secondly, that a comparison of 2017 and 2020 shows the Port has reduced both its gross carbon output as well as improved its operational efficiency – a positive trend in reducing our carbon footprint. Also positive has been the reducing volume of waste to landfill and the increasing volume of waste recycled. In addition, water usage has dropped over the reported period.

5%

Drop in total carbon emissions between 2017 and 2020

01

Significant noise event recorded in 2020

Port Nelson Noise Management

Both the number of complaints and complainants have trended down this year compared to last. This is pleasing particularly given that the construction of Main Wharf North has been underway in the current year.

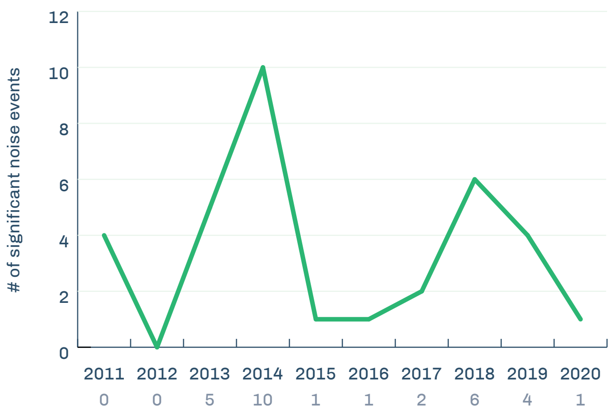
The graph below shows a decline in the number of "significant noise" events (> 85 db at night) with only 1 event recorded in the 2020 financial year compared to 4 in 2019.

It has been a busy year for the Port Noise Liaison Committee (PNLC) with 4 meetings held. The PNLC continues to function well and be an important part of how Port noise is managed at Port Nelson.

The Port will be looking at improvements in noise measuring technology with a view to upgrade its monitoring equipment. This will enhance functionality, Port noise identification and improve on the ground communication in real time, among other benefits. Another container noise mitigation trial is also planned as we continue to look for ways to minimise the noise associated with container clangs and bangs.

Significant Noise Events

Caused by Port operations 2011 – 2020



Other Environmental Impacts

Our company purpose is "to facilitate regional prosperity"; the environment plays a key role in this, and this year we have set key performance indicators (KPIs) around the environment for the business. These reflect our commitment to improving our environment. The new KPIs are targeted at fuel reductions, emissions reductions, and reduced significant noise events.

There will also be an increased focus on dust control and stormwater discharges to the Marine environment. Dust and stormwater discharges from the log yard operations remains a challenge for the Port and will be a focus for the 2021 financial year. Projects are underway to investigate solutions to improve and minimise the impacts of these discharges.

Spill management is another key focus for the Port. Fuel suppliers have an approved tier one response plan to manage accidental spills for the debunking and filling of our plant and tanks. Port Nelson has a spill response plan to manage accidental release.

Tanker bulk fuel transfers are also managed using strict protocols and hold approved tier one response plans. Port Nelson did not have any discharges of hydrocarbons to the coastal marine area in the 2020 financial year.

The Port will continue its implementation of electric vehicles in its fleet. In addition, future sustainability initiatives looking out over the next ten years will be identified to ensure financial and operational provisions are made for these projects.

Port Nelson did not have any discharges of hydrocarbons to the coastal marine area in the 2020 financial year

Continued training and education for staff around key environmental issues, and PNL's Environmental Management System will be also be a key focus for the year, along with strengthening the Port's relationship with iwi to enable Kaitiaki, and ensuring Port Nelson takes greater consideration of points that are important from a cultural perspective.

Our People

Ō tātou whānau

Port Nelson's COVID-19 Heroes

While the arrival of COVID-19 was not a positive by any stretch of the imagination, the way it was dealt with by the Port team was simply outstanding.

Of particular note was the speed and clarity of the messaging of COVID-19 Work Practices at the Port, all targeted at providing a level of protection one degree higher than required by government. This was supported by the ownership shown by the empowered wider leadership team. And in turn the responsibility, shared ownership, and mateship shown by all Port people, even those people whose areas of work were not deemed an essential service.

We are proud to say there were 340 heroes on display at Port Nelson. We show on this page just some of the people and achievements during the height of COVID-19.

340

Heroes on display at Port Nelson during lockdown

Marine

The Community's front-line exposure to the arrival of vessels with potential COVID-19 carriers.

Containers

Managed the peak of the apple season with new work methods through working longer hours and increased shifts.

People and Safety

At the sharp end of our work practices and learnings on COVID-19; interfacing with government and supporting our teams to adapt to new work practices.

Port Security

At the forefront of ensuring non-Port people entering the Port understood and complied with our work practices.

Business Systems

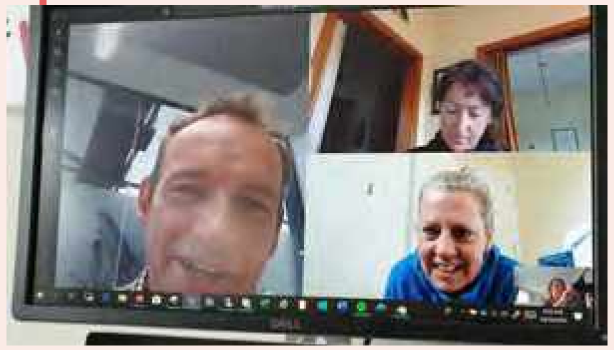
A secure 'work from home' system for 60 people stood up in 24 hours.

Workshop and Slipway

On call 24/7 to keep plant operating given the longer hours being worked around the Port.

Finance and Property

A payment support structure that reached 42% of our people and a lease holiday period for all property tenants.



Infrastructure

Closed down our capital programme of over $30m and then restarted with minimal cost and time impact.

Stevedoring

Required to board vessels that had potential COVID-19 carriers and work in proximity to each other – no issues, no delays.

QuayPack

Workflow interrupted due to the closure of Nelson Pine Industries, responded by supporting the other business units under pressure.

QuayConnect

A bumper wine harvest dealt with through increased shift work and longer hours.

Wellbeing at Port Nelson

If there was ever a year to focus on Wellbeing, the 2020 financial year was it. With COVID-19 presenting many challenges for businesses around the world to ensure positive wellbeing, Port Nelson welcomed the opportunity to enhance its current wellbeing programme for its employees.

"Port Nelson is a significant employer in the region and looking at ways to help build and foster a supportive network within our organisation will help our region prosper, this is especially important during these uncertain times." says Shelley Spencer, General Manager of People & Safety. "It's important to acknowledge that wellbeing issues are not only workplace related but may be family or home related. As an organisation we constantly need to look at ways to help support our people".

This year Port Nelson continued its Mental Health awareness campaign. After a successful launch in May 2018, the Port ran a second round of Wellbeing@ Work mental health workshops by Health Action Trust. The first round of workshops, enabled the Port to develop its Connectors programme. "The Port Nelson Connectors are a group of employees available for anyone in the organisation to connect with, and to help navigate through issues either in the workplace or personally by connecting to the right support. The programme has been received well." says Amanda Dykzeul, Training Advisor.

Port Nelson runs a Wellbeing Calendar throughout the year with various initiatives. One of the initiatives was in support of Blue September; raising awareness of prostate cancer and to encourage men to get tested.

"Everyone at Port Nelson really supported the cause. The most powerful outcomes were the many personal stories shared about the importance of being tested," Shelley says. Initiatives included providing free PSA testing on site, lighting up the Nelson lighthouse blue, supporting the Blue September Sea Swim, and organising a blue themed BBQ. "We also had the senior management team reinforced the message on a custom smoothie-bike, making blueberry beverages — whilst in blue fancy dress, and having fun at the same time."

The Port uses "pulse checks" to survey employees to check in on the value and success of its various health, safety and wellbeing initiatives. Port Nelson continues its focus on wellbeing and planning is underway for an initiative centered around men's mental health for Movember later in the year and Heart Health in February.

Jock (Graham) Neil Edwards

In Memory of Jock Edwards

On the 6th of April, Nelson lost one of its sporting heroes of the past, and Port Nelson lost a much-loved employee.

Over the years, Jock's roles took him across many areas of the Port, his most recent role saw him in our marine team, however he started off as a casual stevedore almost three decades ago. He also worked as a talley clerk in the pre-container days and about 14 years ago his role was as a gatekeeper.

Jock's passion for customer service was unrivalled and he would bend over backwards to make sure the Port's customers were happy. Jock had the kindest of hearts, and the quickest witt, he was the best storyteller you could meet and his devotion to his family is to be commended.

Jock was also a cricketer for Nelson and the New Zealand Cricket Team. He shared stories of his time on tour with and would chat for hours about the stories you didn't see in Print.

"I always remember one day we had an overseas ship that had come into port. The Captain was from India and he had heard that an ex New Zealand cricketer was working in the port. The captain went out of his way to track him down, he was more interested in Jock then he was getting the ship in to port," fellow colleague and friend, Troy Dando remembers. "Once docked the captain made a bee line to the marine office and burst in the door asking Jock and I if we knew where Jock Edwards was. Jock informed him that it was him, to which the captain turned into a teenage fan and asked for Jock's autograph and asked a thousand questions. He was really besotted with Jock to a point that we had to kindly say we had to get the orders out for the next shipping movement to get him out of the office."

Jock will be sadly missed and his memory lives on in anyone that knew him. Rest in Peace Jock (Graham) Neil Edwards.

"Jock had the kindest of hearts, and the quickest witt, he was the best storyteller you could meet and his devotion to his family is to be commended."

Our Community

Tō tātou hapori

Cruise ships & visitors

For many years the Nelson/Tasman region has been a destination of choice for visitors from overseas and within New Zealand. While in these COVID times the return of cruise vessels seems a long way off, it is a form of tourism that will return and deserves to have a place in Nelson and Tasman's offering.

The 2019/2020 summer was a busy season for cruises. The region saw 7 cruise ships and for the first time two cruise ships moored simultaneously at Port Nelson, seeing more than 2000 people arrive into Nelson on the same day.

"Arriving into Nelson is truly a magnificent experience, cruise ships are guided into the Port through the historical 'Cut' – an opening in the Boulder Bank, by our two tugs," says Hugh Morrison, CEO of Port Nelson. "Port Nelson was delighted to berth the incoming cruise vessels and be the first point of call for passengers into the Nelson/Tasman region."

Port Nelson actively worked with the Nelson I-site, Nelson Regional Development Agency, Uniquely Nelson, and Nelson Hospitality Association to produce material for local entities to promote their businesses to the influx of passengers that arrived.

The region saw full tour bookings, special cruise retail offers, live music on the top of Trafalgar Street and a special Sunday Market to help passengers create memories of their time in our region. Port Nelson looks forward to welcoming back the arrival of cruise ships after restrictions are lifted from COVID-19.

02

Cruise ships moored simultaneously at Port Nelson for the first time, seeing more than 2000 people arrive into Nelson on the same day.

Port Tours

For over 170 years Port Nelson has welcomed visitors and commercial operators to the Te Tauihu region. The incoming vessels, stacks of containers and lofty cranes over the wharf are a familiar site for the Nelson Community but most are unaware of what happens behind the gates of the region's gateway to the world.

This year, Port Nelson welcomed community and school groups, both primary and secondary for behind-the-scene tours of the inner workings of the Port.

On a Port tour, attendees gained a thorough understanding of how the region's logs, seafood, hops, wine and fruit make it across the globe, where all those wine bottles come from, and how the heavy equipment is operated. Groups were also able to get up close and personal with the big container ships.

With no two days the same at Port Nelson, groups were guaranteed a memorable 90 minutes and came away with an appreciation of the scale and variety of Port operations. We look forward to continuing our Port Tours in the 2021 financial year.

Sponsorships

Port Nelson continues its commitment to the Te Tauihu region through sponsorship initiatives. In the 2020 financial year the Port distributed more than $100,000 to various community organisations and initiatives across the region, including marine events, sports teams, charitable events, the business sector and staff sponsorships.

Port Nelson's 2020 financial year sponsorship recipients:

- Sealord Marine Rescue Centre
- Port Nelson Fisherman's Association
- Institute of Directors
- Port Nelson Charity Golf Tournament
- New Zealand Winegrowers awards dinner
- Nelson Triathlon & Multisport Club
- Combined Adolescent Challenge Training Unity and Support (CACTUS)
- Sailability Nelson Trust
- Whakatu Riding for the Disabled
- Marine Farming Association
- Tasman Mako
- Port Nelson Staff Fund
- Haulashore Island Trapping Project
- Tasman Bay Guardian Trust
- Cawthron Institute mussel workshop
- Ngāti Apa Ki Te Rā Tō Trust
- Run Like Tanya
- Cancer Society Golf Day
- Nelson Bays Football Refugee Program
- Wine Marlborough
- Bay Dynamics - Marine Settlement Program - Purchase of ROV marine drone
- Nelson Bays Youth Team Racing Association
- Age Concern Christmas Collection
- Kaiteriteri Mountain Bike Park
- Nelson Cricket

$100k

Distributed to various community organisations and initiatives across the region

Tasman Mako

Since 2018 Port Nelson's QuayConnect has sponsored the Tasman Mako in partnership with Central Express. "Port Nelson has a commitment to improving its community. Supporting our regional rugby team the Tasman Mako has been a privilege for the last 2 years." says Jaron McLeod, General Manager of QuayConnect. "We look forward to sponsoring the team again this year and are rooting for them to once again win the Premiership final.".

Haulashore Island Trapping Project

Port Nelson is proud to be on its second year of sponsoring and volunteering with Friends of Motu Manuka on the Haulashore Island predator trapping project, which is initially being supported by Port Nelson for three years. "This collaborative initiative will help restore and improve biodiversity on Haulashore Island." says Kelly Leonard, Environmental Officer. "The project will make the 5-hectare island a safer place for penguins, lizards, skinks and other seabirds.".

Marine Settlement Programme

Port Nelson has a responsibility to care for the safety of the sea as it connects to the Nelson community and for the community as it connects to the sea. The Marine Settlement Programme run by Richard de Hamel is an initiative for school students to explore the environmental changes of plastic plates that have been dropped into the Nelson Harbour. Students can view the plates through an underwater drone donated by Port Nelson.

Port Nelson Golf Tournament

The Annual Port Nelson Golf Tournament has been supporting organisations for the last 15 years. Recipients are chosen for a 2 year term to receive proceeds raised during the event. The Nelson Coastguard was the recipient for the 2019 and 20 financial years, supporting the organisation's fundraising efforts to purchase a new rescue boat.

Our Shareholders

Ō tātou kaiwhapānga

"We have been fortunate to have had the leadership, vision and commercial instincts of Phil and Tim in growing what is one of our critical community assets."

– Mayor Rachel Reese

Multi-Million-Dollar Investments Progress Amid a Global Pandemic

The 2020 financial year saw considerable progress across Port Nelson projects.

Although the COVID-19 pandemic slowed progress, Port Nelson continues to focus on improving the Port's resilience through a wide programme of works including; understanding the vulnerabilities from natural disasters; upgrading Main Wharf North; purchasing a replacement crane and a new tug boat, and proposed dredging to help enable the safe passage of ships into the harbour.

There has been significant progress on upgrading Main Wharf North with partner contractor McConnell Dowell. The upgrade will see the old wooden structure replaced with a strong concrete and steel berthing facility, and the level raised 300mm allowing for sea level rise and to line up with two sections constructed more than 15 years ago. The demolition of the old wharf was completed in early 2020 and sheet piling, and wharf piling for the new berthing facility is well advanced.

John Hart, Project Engineer says "We expect completion of the new wharf in early 2021, the project was delayed by four weeks due to the COVID-19 pandemic lockdown. Thanks to our partner contractor McConnell Dowell, construction resumed under strict protocols in level 3 and has made steady progress over the last few months".

The Port is committed to being a good neighbour and this redevelopment will help mitigate and reduce the effects of noise. The additional footprint on the main wharf means ships can be berthed further north and further away from residential properties.

The new tug – Huria Matenga II arrived into Port Nelson on Saturday, 18 May 2019, welcomed by the Port's existing tug fleet as well as the pilot and harbour master boats. This was followed by a blessing conducted by iwi ahead of the tug starting operations.

A new Liehberr 600 Harbour Mobile crane will arrive in October 2020, this will replace our existing Crane 2. The new crane is taller and has an extended boom, this is to accommodate longer and wider vessels. It will provide safer and more efficient container operations.

A Capital Dredging Project is proposed in addition to the current dredging footprint already in occurrence at the Port. The Capital Dredging project focuses on creating a safer approach to access the Port. Matt McDonald, General Manager of Operations says "Larger vessels are already visiting New Zealand, and Port Nelson is currently restricted to receiving vessels under 270m in length. Port Nelson want to ensure that the Te Tauihu region can accommodate larger vessels, which in turn will ensure goods reach their export market optimally and efficiently".

Impact modelling and consultation with interested parties on the proposed Capital Dredging Project has commenced.

Governance Changes at Port Nelson Herald the End of a Governance Era and the Start of a New One

Longtime Chairman, Phil Lough and Director Tim King are standing down.

Phil Lough stepped down in September after 20 years of service, 6 of those as Chairman. "Whilst Phil has been on the Board, he has provided a wealth of knowledge and experience, overseeing significant change at Port Nelson. Formerly CEO of Sealord, Phil has been a champion of the Nelson/Tasman region and its economic growth," says CEO Hugh Morrison.

In June, following his appointment as Mayor of Tasman District Council, Tim King also stepped down, after 14 years on the Board. "Tim has been a tireless champion on the board for the commercial growth of the business, while ensuring it remains connected and contributing to the wider region," says Rachel Reece, Mayor of Nelson City Council. During the time Phil and Tim have been on the Board, cargo volumes have increased by 37%. In addition, major legacy projects have been undertaken such as the start of QuayConnect – Port Nelson's sustainable logistics and transport model, the Calwell Slipway remediation project – which saw contaminated marine material removed and safe navigability restored and, the implementation of the Port's resilience project which included upgrading Main Wharf North, new tugs, and a new crane.

Port Nelson is jointly owned by Nelson City Council and Tasman District Council. Rachel Reese acknowledged the contribution of both individuals, "We have been fortunate to have had the leadership, vision and commercial instincts of Phil and Tim in growing what is one of our critical community assets."

Replacing Phil Lough as Chairman is Geoff Dangerfield. Geoff comes to the appointment after nearly 2 years as a Director for Port Nelson. He has a background in transport infrastructure and economic development, and was formerly CEO of the NZ Transport Agency, and CEO of the Ministry of Economic Development. Geoff currently holds a number of governance and advisory roles in the public and private sectors. He also has an MSc in Resource Management, is a Fellow of the Chartered Institute of Logistics and Transport and is a Companion of the Queen's Service Order.

New to the Board are Jon Safey and Paul Zealand.

Jon Safey joined the Board on 1 June 2020 and brings with him a wealth of experience from his previous positions as COO at Sealord, GM Global Marketing at Nissui, and Company Director at JJI Enterprises.

Paul Zealand joined the Board on 1 July 2020 and is currently a director of Genesis Energy and Refining NZ in New Zealand and Lochard Energy in Australia. Paul's prior executive experience includes Country Chairman for Shell in New Zealand and Upstream CEO for Origin Energy.

Governance

Director changes

Tim King retired as a Director on 30 June 2020.

Jon Safey was appointed as a Director on 1 June 2020, concluding May 2023.

Phil Lough retired as Chair on 16 September 2020, the date of the Annual General Meeting.

Geoff Dangerfield was appointed as Chair on 16 September 2020, the date of the Annual General Meeting.

Board as at 30 June 2020

Phil Lough (Chair)

Tim King

Bronwyn Monopoli

Tony Reynish

Kim Wallace

Geoff Dangerfield

Jon Safey (appointed 1 June 2020)

Meeting Attendance	Board	Finance & Risk	Remuneration & Appointments
Phil Lough	11	3	1
Tim King	11		1
Kim Wallace	10	3	1
Bronwyn Monopoli	11	3	
Tony Reynish	11		1
Geoff Dangerfield	11	3	
Jon Safey	1		

Directors

Phil Lough

Phil is currently a Director of Genera Limited. He was previously employed as CEO of the Sealord Group. Phil was made a Companion of the New Zealand Order of Merit and is a fellow of the Institute of Directors (IoD). Phil was also the first chair of the newly established NZ Trade & Enterprise.

Tim King

Tim is Mayor of the Tasman District Council and chairs its Environment and Planning Committee. He farms on the Waimea Plains and has governance roles on a range of organisations, including the Kaiteriteri Reserve Board and Chatham Island Port Company.

Bronwyn Monopoli

Bronwyn is an Associate Principal of Findex NZ Limited, specialising in rural business accounting services, taxation and business advice. She brings a wealth of governance experience to her role and is currently a director of a number of companies and trusts. Bronwyn's qualifications include Bachelor of Agricultural Science, Bachelor of Business Studies and an Honorary Doctorate in Commerce from Massey University. She is a fellow of the New Zealand and Australian Institute of Chartered Accountants and a chartered fellow of the New Zealand Institute of Directors and holds the award of MBE (Civil Division) for services to business management. She was also inducted into the Nelson Tasman Chamber of Commerce Hall of Fame in 2012.

Tony Reynish

Tony is a former senior executive of the Port of Tauranga with 30 years' experience in port developments, property, and commercial contracts. He currently holds a number of directorships in port related companies. Tony was appointed to the board in November 2014.

Kim Wallace

Kim Wallace is a Christchurch-based professional director and consultant whose executive career spanned roles in governance, finance and supply chain management. She formally served as a CFO/Executive director and held various finance roles in the global dairy industry for 24 years including holding positions based in New Zealand, Australia, Germany and the USA. Kim has been appointed as an independent director since 2012. Having recently retired as Deputy Chair of Quotable Value, she is currently Port Nelson's Audit Committee Chair, the AgResearch Deputy Chair and Audit Committee Chair, Chair of the Christchurch City Council Audit and Risk Committee and a member of the Ministry of Primary Industries Audit and Risk Committee. Kim is a Chartered Member of the NZ Institute of Directors.

Geoff Dangerfield

Geoff has a background in transport infrastructure and economic development. He is a former CEO of the NZ Transport Agency and was previously CEO of the Ministry of Economic Development. He currently holds a number of governance and advisory roles in the public and private sectors. He has an MSc in Resource Management, is a Fellow of the Chartered Institute of Logistics and Transport, and is a Companion of the Queen's Service Order.

Jon Safey

Jon Safey is a Nelson based Professional Director and Consultant. Jon also currently serves as an advisor to Nippon Suisan Kaisha, a 50% shareholder in the Sealord Group. Jon has had an extensive career in the export of primary products from New Zealand, starting in the Dairy sector and to date in the fishing industry.

Our Senior Management Team left to right: Julie, Allanagh, Matt, Hugh, Jaron, Daryl, Shelley

Directory

Board of Directors

Phil Lough (Chair)
Tim King
Brownyn Monopoli
Tony Reynish
Kim Wallace
Geoff Dangerfield
Jon Safey

Secretary

Daryl Wehner

Senior Management

Hugh Morrison
Chief Executive Officer

Daryl Wehner
Chief Financial Officer

Matt McDonald
General Manager Operations

Shelley Spencer
General Manager People & Safety

Allanagh Rivers
General Manager Environment and Infrastructure

Jaron McLeod
General Manager QuayConnect

Julie Waghorn
Executive Assistant

Registered office

8 Vickerman Street, Port Nelson
Nelson 7040, New Zealand
(03) 548 2099
info@portnelson.co.nz
www.portnelson.co.nz

Auditor

Audit New Zealand
(on behalf of the Auditor-General)

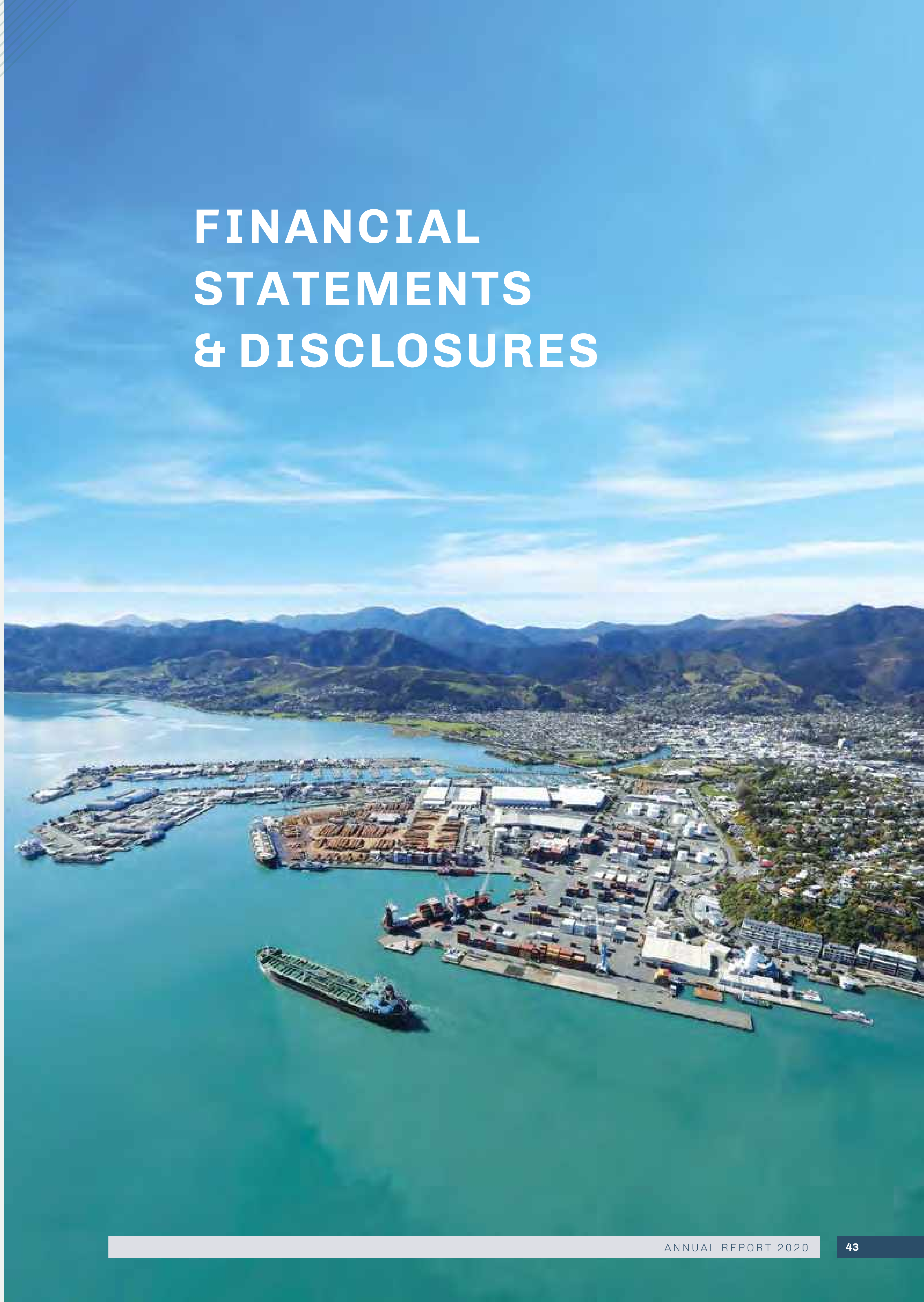
Solicitors

Pitt & Moore, Barristers and Solicitors
PO Box 42, Nelson 7040
Simpson Grierson, Barristers and Solicitors
PO Box 2402, Wellington 6140

Bankers

Westpac Banking Corporation
PO Box 643, Nelson 7040

FINANCIAL STATEMENTS & DISCLOSURES



Contents

Independent Auditor’s Report

To the readers of Port Nelson Limited’s financial statements for the year ended 30 June 2020

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 51 to 73, that comprise the statement of financial position as at 30 June 2020, 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 2020; 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 25 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of COVID-19 on the company. 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.

Emphasis of matter – Impact of COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of COVID-19 on the company as set out in the notes to the financial statements on pages 56 to 57. We draw specific attention to the following matters due to the significant level of uncertainty caused by COVID-19:

- **Significant valuation uncertainty for investment property and land and buildings classified as property, plant and equipment**

  The note to the financial statements on page 56 describes the significant uncertainties communicated by the valuer, related to estimating the fair values of the company’s investment property and land and buildings classified as property, plant and equipment.

- **Sensitivity of the valuation model used in impairment assessments**

  Note to the financial statements on page 57 describes the sensitivity of the company’s impairment model to changes in key assumptions.

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 45 and 48 to 50, 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 2020 and subsequently, a Director of the company’s Board of Directors is a member of the Auditor-General’s Audit and Risk Committee. 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 2020.

Ownership

Port Nelson is owned equally by the 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, Tim King.

Remuneration and Appointments Committee

Phil Lough, 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, 2020.

Phil Lough

Genera Limited

Tim King

Tasman District Council

Kaiteriteri Reserve Board

Chatham Islands Ports Limited

Bronwyn Monopoli

Nelson Millennium Centre Trust

Findex (NZ) Limited

Light Nelson Trust

Thames Farming Enterprises New Zealand Group Limited

Thames Dairy Limited

Tony Reynish

Stallion Plastics Ltd

MetroBox Ltd

Quality Marshalling Ltd

Timaru Container Terminal Ltd

Port of Tauranga

PrimePort Timaru Limited

Geoff Dangerfield

Wellington Water Ltd

Payments NZ Ltd

NZ Festival Trust

Ministry of Children – Risk and Assurance Committee

Geoff Dangerfield Consulting Ltd

Office of the Auditor-General – Audit and Risk Committee

Review of Rail Steering Group

Ministry of Primary Industries – Risk and Assurance Committee

Kim Wallace

Quotable Value Limited

AgResearch Limited

North Canterbury Transport Infrastructure Recovery

Christchurch City Council – Audit and Risk Management Committee

Ministry of Primary Industries – Risk and Assurance Committee

Jon Safey

Nil Disclosures

Directors Remuneration

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

Phil Lough	$67,359
Tim King	$34,676
Bronwyn Monopoli	$35,673
Tony Reynish	$34,676
Kim Wallace	$35,673
Geoff Dangerfield	$35,673
Jon Safey	$2,890
Total	**$246,620**

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	10
$110,001 – $120,000	4
$120,001 – $130,000	4
$130,001 – $140,000	6
$140,001 – $150,000	3
$160,001 – $170,000	5
$170,001 – $180,000	1
$220,001 – $230,000	1
$240,001 – $250,000	1
$250,001 – $260,000	1
$260,001 – $270,000	1
$280,001 – $290,000	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 2020

Purpose

To facilitate regional prosperity.

Strategic Intention

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

Objectives

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

Measure of Performance against Objectives	Target	2020	2019	2018	Outcome
People					
Lost time injury frequency rate (per 100,000 hrs)	1.5	3.1	4.0	2.1	Not Achieved
Performance					
Earnings before interest, tax, depreciation and amortisation ($ million)	28.0	20.9	30.5	27.1	Not Achieved
Return on capital employed	5.0%	4%	8%	8%	Not Achieved
Shareholders' funds to total assets	64%	70%	68%	70%	Achieved
Net debt to equity	<45%	28%	32%	30%	Achieved
Dividends declared ($ million)	5.5	4.8	5.5	5.5	Not Achieved
Environment and Community					
Incidents Leading to Pollution of Harbour *	Nil	Nil	Nil	Nil	Achieved
Compliance with all Resource Consent Conditions	100%	100%	100%	100%	Achieved
Compliance with NZ Maritime Safety Standards **	100%	100%	100%	100%	Achieved
Compliance with Noise Variation	100%	1 incident	100%	100%	Not Achieved
Maintain ISO14001 certification	100%	100%	100%	100%	Achieved
Customers					
Cargo Throughput (million tonnes)	3.7	3.3	3.9	3.6	Not Achieved
Vessel Visits (more than 100 GRT)	794	760	804	887	Not Achieved
Shipping Tonnes (GRT - gross registered tonnes)	8.2	9.6	11.1	12.2	Achieved

** This measure relates to port operational area only (excludes port lease areas)*
*** For Port Nelson New Zealand Maritime Safety Standards include*
- Dredged channels compliant with charts
- Navigation aids
- Pilotage

Achieved
Not Achieved

Statement of Comprehensive Income

For the year ended 30 June 2020

	NOTES	2020	2019
		$000	$000
Revenue			
Port Operations	A1	60,982	62,694
Property	A1	5,762	8,002
Total revenue		**66,744**	**70,696**
Expenses			
Employee Benefit Expenses		20,273	20,921
Other Operational and Property Expenses	A2	25,574	19,278
Earnings before Interest, Tax, Depreciation and Amortisation		**20,897**	**30,497**
Depreciation and Amortisation		7,986	7,601
Earnings before Interest and Tax		**12,911**	**22,896**
Net Financing Costs	A3	2,717	2,888
Net profit before income tax		**10,194**	**20,008**
Income Tax	A4	2,040	4,752
Net profit after income tax		**8,154**	**15,256**
Other comprehensive income			
Movements in Revaluation Reserves	B1	57,612	-
Movements in Hedging Reserve		(977)	(1,709)
Total other comprehensive income		**56,635**	**(1,709)**
Total comprehensive income		**64,789**	**13,547**

Statement of Changes in Equity

For the year ended 30 June 2020

	ISSUED CAPITAL	RETAINED EARNINGS	ASSET REVALUATION RESERVE	HEDGING RESERVE	TOTAL EQUITY
	$000	$000	$000	$000	$000
Balance at 1 July 2018	**6,046**	**62,736**	**116,664**	**(1,622)**	**183,824**
Net profit for the year		15,256			15,256
Other comprehensive income					
Changes in the fair value of cash flow hedges				(2,350)	(2,350)
Deferred tax impact of movement in reserves				641	641
Total other comprehensive income				**(1,709)**	**(1,709)**
Total comprehensive income for the year	**-**	**15,256**	**-**	**(1,709)**	**13,547**
Dividends payable		(4,000)			(4,000)
Dividends paid		(3,000)			(3,000)
Balance at 30 June 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**

Statement of Financial Position

As at 30 June 2020

	NOTES	2020	2019
		$000	$000
Current assets			
Cash and Cash Equivalents		220	448
Trade and Other Receivables	C1	10,735	9,610
Inventories		550	725
Prepayments and Accruals		638	384
Assets Intended for Sale		15	-
Total Current Assets		**12,158**	**11,167**
Less current liabilities			
Trade and Other Payables	C1	5,338	2,579
Employee Benefit Entitlements	D1	2,468	2,424
Tax Payable		75	2,627
Dividend Payable		2,500	4,000
Derivatives - Cash Flow Hedges	C1	228	262
Noise Mitigation	D1	191	47
Calwell Basin Dredging and Stabilisation Provision		-	13
Total Current Liabilities		**10,800**	**11,952**
Working capital		**1,358**	**(785)**
Non-current assets			
Property, Plant and Equipment	B1	316,653	240,547
Intangible Assets	B2	2,489	1,180
Investment Properties	B3	25,484	25,185
Total Non-Current Assets		**344,626**	**266,912**
Less non-current liabilities			
Employee Benefit Entitlements	D1	244	237
Deferred Tax Liability	A4	18,460	8,741
Term Loan	C1	70,500	61,850
Derivatives - Cash Flow Hedges	C1	5,807	4,403
Noise Mitigation	D1	196	525
Lease Liabilities	D4	417	-
Total Non-Current Liabilities		**95,624**	**75,756**
Net assets		**250,360**	**190,371**
Shareholders' funds			
Issued Capital	D2	6,046	6,046
Retained Earnings		74,346	70,992
Asset Revaluation Reserve	B1	174,276	116,664
Hedging Reserve	C1	(4,308)	(3,331)
Total shareholders' funds		**250,360**	**190,371**

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

Kim Wallace
Director

September, 25 2020

Statement of Cash Flows

For the year ended 30 June 2020

	NOTES	2020	2019
		$000	$000
Cash flows from operating activites			
Cash was provided from:			
Receipts from customers		59,962	62,992
Rent received		5,473	5,414
Interest received		1	2
		65,436	**68,408**
Cash was applied to:			
Payments to suppliers and employees		44,025	40,734
Interest paid		2,760	2,855
Taxes paid		5,721	4,153
Net GST paid/(received)		(453)	668
		52,053	**48,410**
Net operating cash inflows	D3	**13,383**	**19,998**
Cash flows from investing activites			
Cash was provided from:			
Sale of property, plant and equipment		211	28
		211	**28**
Cash was applied to:			
Purchase of property, plant and equipment		14,523	18,129
Purchase of intangibles		1,592	1,059
		16,115	**19,188**
Net investing cash inflows/(outflows)		**(15,904)**	**(19,160)**
Cash flows from financing activites			
Cash was provided from:			
Loans borrowed		8,650	6,300
		8,650	**6,300**
Cash was applied to:			
Dividend paid		6,300	7,000
Payment of lease liabilities		57	40
		6,357	**7,040**
Net financing cash inflows/(outflows)		**2,293**	**(740)**
Net increase/(decrease) in cash held		(228)	98
Cash and cash equivalents at 1 July		448	350
Cash at 30 June		**220**	**448**

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 propertiesand supply chain and 4PL soution services at the port of Nelson and within the wider Nelson/ 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.

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 September, 25 2020.

Basis of Measurement

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, investment property and financial instruments have been followed.

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.

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.

Notes to the Financial Statements

Information that is considered material and relevant to the users of these financial statements is provided throughout 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.

Accounting Policies

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. Over lockdown, Port Nelson continued operating as an essential service.

However, the export of several commodities including logs, processed forestry commodities, such as medium-density fibreboard and laminated veneer lumber, ceased. Other services including the slipway, marine services and leasehold property were likewise adversely impacted.

Since 13 May, Port Nelson's operations have mostly returned to normal. Wine, apples, kiwifruit, fish and logs are likely to continue to have strong export demand. Conversely, in the short-medium term, we expect that the processed forestry sector may experience reduced demand, and it is unclear when or if the cruise industry will fully recover.

These financial statements reflect the effect of COVID-19 on Port Nelson's operations, based on the information available to the date these financial statements are signed.

Impact on Revenue and Expenses

As a result of Covid-19, Port Nelson incurred reduced revenue and additional operational expenses in the following areas:

- Lease abatements of investment property revenue
- Additional employee benefit expenses. Port Nelson did not receive the Wage Subsidy but committed the cost to retain full employment
- Main Wharf Redevelopment costs associated with demobilisation, accommodation and remobilisation
- Worker personal protection equipment, cleaning services and consumables

Impact on Valuation of buildings, investment property and wharves

The independent valuers have communicated that there is a heightened level of uncertainty concerning the valuations for assets held at fair value at 30 June 2020 due to the market disruption and lack of transactional data during Level 4 lockdown.

Therefore, less certainty and a degree of caution should be attached to the valuation than would typically be the case, in particular, for investment property and operational land & buildings subject to leases.

The unprecedented set of circumstances have been considered together with the key assumptions used in the valuation, and the valuation still represents the most appropriate value of these assets under the current circumstances.

Valuations for investment property, operational land & buildings, and wharves assume:

- Lower inflationary expectations resulting from COVID-19 has reduced the estimated 'normal' Long Term Land Value Growth rate from 1.25% to 0.75%
- As a result of increased market risk and less buoyant market conditions, the Discount Rate used on ground leases has increased from pre COVID-19 levels of 6.6% to 7.0%-7.25%
- No provision has been made for future rental abatements resulting from COVID-19
- Cargo volumes and container throughput are forecast to be unaffected. Accordingly, the value of wharves due to COVID-19 is unchanged

Further information about the key valuation assumptions used in estimating the fair value of investment property, operational land and buildings and wharves at 30 June 2020 is provided in note B5.

Asset Impairment Testing

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

The recoverable amount of an asset or CGU is calculated as the higher of its value in use and fair value less costs to sell. Every reporting period management estimates the value in use expected to be recovered from Port Nelson's CGUs. An impairment is recognised when the value in use or fair value, less costs to sell is lower than the carrying value.

Determining value in use involves estimating future cash flows for each CGU. These cash flows are adjusted for future growth based on historical inflation and discounted at a post-tax discount rate of 6.6% to arrive at the present value, or value in use, of each CGU.

Port Operations CGU	
Post-tax discount rate	External WACC report prepared by Findex and implicit inflation rate
Cargo volumes	Forecast cargo volumes reflecting historical levels, input from exporters and externally available market data
Container volumes	Forecast container volumes reflecting historical levels, input from exporters and externally available market data
Ship visits	Based on forecast cargo volumes and container volumes, historical levels for non-Port Nelson visits and known differences
Contract pricing	Actual contract prices adjusted for forecast customer and market changes
Port logistic customer numbers and warehouse utilisation	Forecast customer numbers, storage volumes and pricing
Estimated future capital expenditure and operating costs	Forecast capital and operating expenditure, reflecting historical levels, known differences and asset management plans

Property CGU	
Post-tax discount rate	External WACC report prepared by Findex and implicit inflation rate
Leased property agreements	Based on actual property agreement terms
Property valuation and returns	Forecast Long Term Land Value Growth rate

COVID-19 Asset Impairment Testing

The impairment testing includes assumptions relating to the uncertain fiscal environment brought on by the impact of COVID-19 on future cash flows in the medium to long term.

Forecast cargo volumes, container throughput, ship visits, prices, gross margins, changes in working capital and discount rates have been reassessed and updated as appropriate due to the significant changes in economic and market conditions. As a result, the discount rate has increased from pre COVID-19 levels to the rate used for impairment testing of 6.6%.

The result of this assessment was that no asset impairment was required.

Sensitivities

The calculation of the value in use for the CGUs is most sensitive to the inputs for cargo volumes and the post-tax discount rate. Further log volumes represent approximately one-third of the total annual cargo volume.

Cargo volumes are influenced by several factors that are difficult to predict, in particular nature, export market conditions and shipping schedules.

The post-tax discount rate of 6.6% is Port Nelson's determined weighted average cost of capital. It is influenced by several external factors such as the risk-free rate, cost of external funding and inflation.

The table below illustrates the sensitivity on the asset impairment assessment as movements from the baseline using the post-tax discount rate of 6.6%, where all other inputs remain constant.

Significant unobservable inputs	Sensitivity	Impairment Impact ($000s)
Post-tax discount rate	-0.25	24,894
	+0.25	(13,222)
Log Volumes	-5.0%	(1,609)
	+5.0%	11,291

A. Revenue and Expenses

A1. Revenue

	2020	2019
	$000	$000
Port operations		
Marine	9,373	10,432
Container Terminal and Cargo Handling	37,251	42,355
Warehousing and Distribution	14,043	9,507
Gain on Sale of Assets	164	12
Lease Income	151	388
Total Port Operations	**60,982**	**62,694**
Property		
Lease and Licences	5,467	5,436
Fair Value Adjustment of Investment Property	295	2,600
Prior period Adjustment	-	(34)
Total Property	**5,762**	**8,002**
TOTAL REVENUE	**66,744**	**70,696**

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 is 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

	2020	2019
Due within 1 year	4,965	4,729
Due between 1 to 2 years	4,457	4,376
Due between 2 to 3 years	3,906	3,951
Due between 3 to 4 years	3,523	3,458
Due between 4 to 5 years	3,181	3,153
Due over 5 years	18,995	20,337
Total non-cancellable operating lease revenue	**39,027**	**40,004**

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

	2020	2019
	$000	$000
Operational		
Audit Fees	74	79
Bad Debts Written-Off	10	18
Contract Services	1,361	1,181
Directors Fees	247	239
Donations and Sponsorship	126	128
Electricity	779	841
Freight	8,911	5,007
Fuel	995	1,205
Impairment of Assets	665	-
Noise Mitigation Expenses	(127)	79
Plant Hire	1,059	1,362
Rates	432	476
Repairs and Maintenance	3,870	3,435
Warehouse Lease	333	342
Other Operating Expenses	5,872	4,199
Total operational	**24,607**	**18,591**
Property		
Electricity	19	14
Impairment of Assets	135	-
Plant Hire	2	2
Rates	213	187
Repairs and Maintenance	116	245
Other Operating Expenses	482	239
Total property	**967**	**687**
Total other operational and property expenses	**25,574**	**19,278**

Recognition and Measurement

Administration and Other Expenses

Administration and other expenses are recognised as an expense when they are incurred.

Impairment of Assets

At each reporting date Port Nelson reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the carrying amount of the asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where the impairment loss is greater than the balance in the revaluation reserve, the excess impairment is expensed through the profit or loss. For assets not carried at a revalued amount the impairment loss is recognised in the profit or loss.

A3. Net Financing costs

	2020	2019
	$000	$000
Finance revenue	(1)	(2)
Finance costs	2,983	2,890
Finance cost of qualifying assets	(265)	-
Net financing costs	**2,717**	**2,888**

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.

A4. Taxation

	2020	2019
	$000	$000
Provision for Taxation		
Current Tax	3,247	5,580
Adjustment to current tax in prior periods	(78)	218
Deferred Tax	(1,129)	(1,046)
Tax expense	**2,040**	**4,752**
Profit from Continuing Operations	10,194	20,008
Tax at 28%	2,854	5,602
Prior Year Adjustment	-	(152)
Non-Deductible Expenses	16	30
Non-Taxable Income	(128)	(728)
Reduction in Deferred Tax on buildings	(702)	-
Tax expense	**2,040**	**4,752**

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
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**
2019			
Opening Balance	11,583	(1,155)	10,428
Charged to Profit and Loss	(1,035)	(11)	(1,046)
Charged to Equity	-	(641)	(641)
Balance at 28%	**10,548**	**(1,807)**	**8,741**

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 profit or loss, 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

	2020	2019
	$000	$000
Imputation credits available to shareholders for future use	30,177	28,604

B. Key Assets

B1. Property, plant and equipment

	Operational Land and Buildings at Fair Value	Property Land and Buildings at Fair Value	Wharves at Fair Value	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 1 July 2018	**93,571**	**44,479**	**41,685**	**75,242**	**17,854**	**3,652**	**2,534**	**279,017**
Additions and Transfers	3,071	294	192	11,132	4,334	-	(1,306)	17,717
Disposals	(50)	(3)	-	(3,093)	-	-	-	(3,146)
Impairment Charges	-	-	-	-	-	-	-	-
Revaluation Surplus	-	-	-	-	-	-	-	-
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**
Accumulated depreciation								
At 1 July 2018	**(550)**	**(161)**	**(2,135)**	**(42,118)**	**(3,662)**	**-**	**-**	**(48,626)**
Depreciation expense	(717)	(167)	(2,143)	(3,956)	(470)	(45)	-	(7,498)
Disposals	50	-	-	3,034	-	-	-	3,084
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)**
Net book value								
Net book value 30 June 2018	93,021	44,318	39,550	33,124	14,192	3,652	2,534	230,391
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**

*Infrastructural assets include hardstanding, roadways, stormwater, sewerage and water reticulation located underground.

Right-of-Use Assets

	$000
At 30 June 2018	
Additions and Transfers	62
Depreciation expense	(39)
Net book value 30 June 2019	**23**
Additions and Transfers	641
Depreciation expense	(56)
Net book value 30 June 2020	**608**

Right of Use Assets

For applicable leases, right-of-use assets have been recognised and included in Plant, Furniture, Fittings and Equipment.

B1. Property, Plant and Equipment (continued)

Recognition and Measurement

Property, plant and equipment, except land, buildings, wharves and infrastructural assets are stated at valuation taken over from the Nelson Harbour Board on 1 October 1988 and subsequent additions at cost. Land, buildings and wharves are stated 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. The cost of maintaining the dredged depth is expensed.

Valuation Basis

The asset classes that are subject to revaluation are assessed at each balance date to ensure that the values are not materially different from fair value. Where the carrying value is materially different from fair value a revaluation is undertaken. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are included in the 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.

Land and Buildings are valued at least every three to five years respectively. Land and Buildings are stated at fair value. Fair value was determined as at 30 June 2020 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. The Land and Buildings valuation was completed by Ian McKeage, Registered Valuer, FNZIV, FPINZ of Telfer Young. Telfer Young have recent experience in the location and category of the items being valued. Further detail on the fair value measurement is included in note B4.

Wharves are valued at least every five years. Wharves are stated at fair value. Fair value was determined as at 30 June 2020 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. The valuation was prepared by Fraser Clarke, Infrastructure Analyst, of WSP. Further detail on the fair value measurement is included in note B4.

	YEARS
Plant, Furniture and Equipment	4-51
Wharves and Berths	3–76
Infrastructural Assets	10-51
Buildings	8–56
Intangible Assets	3-14

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

	2020	2019
Computer Software and Licences	$000	$000
Cost		
Opening balance at 1 July	5,634	4,576
Additions	116	-
Additions - Capital Work in Progress	1,499	1,059
At 30 June	**7,249**	**5,634**
Accumulated Amortisation		
Opening Balance at 1 July	(4,454)	(4,351)
Amortisation for the period	(306)	(103)
At 30 June	**(4,760)**	**(4,454)**
Net book value	**2,489**	**1,180**

Recognition and Measurement

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 acquisition of intangible assets at balance date.

B3. Investment Properties

	2020	2019
	$000	$000
Opening Fair Value of Investment Property	25,185	22,585
Additions/Reclassifications	4	-
Revaluations (recognised in property revenue)	295	2,600
Properties Sold	-	-
Closing Fair Value of Investment Property	25,484	25,185

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 2020 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

	2020	2019
	$000	$000
Commitments for Capital Development	15,291	20,165

Recognition and Measurement

Capital Commitments

Capital commitments at balance date consist of nine projects (2019: nine). Material projects include the reconstruction of Main Wharf North and the purchase of a Liebherr Crane.

B5. Fair Value Measurements

Recognition and Measurement

The valuation of Land, Buildings, Wharves and Investment Property requires estimation and judgement. 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. 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
Optimised Depreciated Replacement Cost	Reflects the amount that currently would be required to replace the service capacity of an asset adjusted for the remaining useful life of the assets (depreciation)
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 land, buildings, wharves and investment property classified as level 3, along with their sensitivity are as follows:

Asset classification	Valuation approach	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable input to fair value
Operational Property – Land subject to Ground Leases	Sales comparison approach	Freehold land value per m^2	$291 - $560	The higher the value per m^2 the higher the fair value depending on the land area
	Discounted Cashflow	Ground rental rate	5.4% - 5.75%	The higher the rental rate versus the contract rent, the lower the fair value
		Discount rate	7.0% - 7.25%	The higher the discount rate the lower the fair value
		Long term land value escalation per annum	0.75%	The higher the discount rate the lower the fair value
Operational Property – Land Freehold	Sales comparison approach	Freehold land value per m^2	$12 - $1,154	The higher the price per m^2 the higher the fair value depending on the land area
Operational Property – Buildings	Income capitalisation approach	Rental per s/m	$50 – $285	The higher the rental per s/m the higher the fair value
		Capitalisation rate	6.0% – 7.5%	The higher the capitalisation rate the lower the fair value
	Discounted Cashflow	Discount rate	7.0% - 7.25%	The higher the discount rate the lower the fair value
		Terminal Cap rate	6.00% - 7.75%	The higher the terminal capitalisation rate the lower the fair value
	Optimised depreciated replacement cost	Remaining useful life	5 - 33 years	The higher the remaining useful life the higher the fair value
		Replacement cost per s/m	$598 – $4,350	The higher the replacement cost the higher the fair value depending on the remaining useful life
Wharves	Optimised depreciated replacement cost	Remaining useful life	2 - 66 years	The higher the remaining useful life the higher the fair value
		Replacement cost per s/m	$2,060-$6,685	The higher the replacement cost the higher the fair value depending on the remaining useful life
Investment Property – Land Subject to Ground Leases	Sales comparison approach	Freehold land value per s/m	$265 – $638	The higher the price per s/m the higher the fair value
		Ground rental rate	5.4% – 5.75%	The higher the rental rate versus the contract rent, the lower the fair value
	Discounted Cashflow	Discount rate	7.0% - 7.25%	The higher the discount rate the lower the fair value
		Long term land value escalation per annum	0.75%	The higher the land value escalation the higher the fair value.
Investment Property - Land Freehold	Sales comparison approach	Freehold land price per s/m	$299 – $412	The higher the price per s/m the higher the fair value
Investment Property - Buildings Freehold	Income capitalisation approach	Rental per s/m	$199 – $254	The higher the rental per s/m the higher the fair value
		Capitalisation rate	7.50%	The higher the capitalisation rate the lower the fair value.
	Discounted Cashflow	Discount rate	7.50%	The higher the discount rate the lower the fair value
		Terminal Cap rate	8.25%	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
-100bp	213	(2,368)
+100bp	(213)	1,832

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	2020	2019	2020	2019
Less than 1 year	5.9%	5.1%	4,000	15,000
1 to 2 years	3.8%	5.9%	19,000	4,000
2 to 5 years	2.6%	3.5%	31,000	30,000
5 years +	2.3%	3.4%	22,000	25,000
			76,000	**74,000**

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

	2020	2019
	$000	$000
Trade Receivables	10,725	9,624
Related Party Receivables	37	25
Expected Credit Losses	(27)	(39)
Total Trade Receivables	**10,735**	**9,610**

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.

Trade Receivables Past Due

	2020	2019
Less than three months	1,884	2,436
Greater than three months	87	51
Total Past Due	**1,971**	**2,487**
Trade Receivables Not Past Due	8,764	7,123
Total Trade Receivables	**10,735**	**9,610**

Impairment of Trade Receivables

Port Nelson 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.

C1. Financial Instruments (continued)

Estimated Credit Loss

Trade receivables - days past due date

	2020	2019
	%	%
Not Past Due	-	-
<30	-	-
31-60	-	-
61-90	0.2	0.2
91-120	-	-
>120	13.9	14.0

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.

	2020	2019
	$000	$000
Estimated total gross carrying amount at default:	16	5

Lifetime Expected Credit Loss

	2020	2019
	$000	$000
Opening Balance	39	117
Impairment of receivables	(23)	(81)
Increase in Provision for Expected Credit Loss	11	3
Closing balance	**27**	**39**

The table to the left shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

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 forward foreign exchange contracts in respect of the purchase of a replacement Liebherr crane (refer B3) with a notional value of $6.32m and a fair value of the forward foreign exchange contract derivative amounting to $0.13m (2019: nil).

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 April 2018 expiring July 2021. The second is for a funding facility of $20,000,000 commencing November 2017, expiring July 2022. The third is for a funding facility of $30,000,000 commencing July 2020, expiring July 2023.

At balance date, $10,000,000 of the mulit-option credit facility was being applied to a Letter of Credit in respect of the purchase of a replacement Liebherr crane. Once the Letter of Credit obligations are met the $10,000,000 of the mulit-option credit facility will revert.

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
2020 ($000)						
Borrowings	3.95%		38,200	32,300		70,500
Trade and Other Payables		5,338				5,338
Total Borrowings		**5,338**	**38,200**	**32,300**	-	**75,838**
2019 ($000)						
Borrowings	4.58%		29,950	31,900		61,850
Trade and Other Payables		2,579				2,579
Total Borrowings		**2,579**	**29,950**	**31,900**	-	**64,429**

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 fair valued at a total liability of $6.035m (2019: liability of $4.655m) 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

	2020	2019
	$000	$000
Accrued Pay	453	821
Annual Leave	1,369	1,224
Long Service Leave	279	277
Retirement Gratuities	-	48
Other Benefits	611	291
Total Employee Benefit	**2,712**	**2,661**
Current	2,468	2,424
Non-Current	244	237
Total Employee Benefit	**2,712**	**2,661**

Recognition and Measurement

Provisions

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

Noise Mitigation Provision

	2020	2019
	$000	$000
Current	191	47
Non-Current	196	525
	387	**572**

Noise Mitigation Provision

Port Nelson reviews its Noise Mitigation provision each year 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 2020.

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 14 properties designated Stage One properties, and at 30 June 2020, seven properties have had this obligation met (2019 - nine properties). During the financial year, the contour lines were redesginated by the Council, which saw an additional three properties move ino 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 2020 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 shares carry fixed dividend rights.

D3. Reconciliation of Net Operating Cash Flows

	2020	2019
	$000	$000
Net profit	**8,154**	**15,256**
Add non-cash items:		
Depreciation and amortisation	7,986	7,601
Net movement in deferred tax	(1,129)	(1,046)
Impairment of assets	800	-
Net Calwell Basin dredging and stabilisation provision	(13)	632
	7,644	**7,187**
Add (less) movements in other working capital items:		
Trade and other receivables	(1,125)	(457)
Inventories	175	(139)
Prepayments and accruals	(254)	35
Trade and other payables	2,570	(1,722)
Current employee benefit entitlements	44	310
Tax payable	(2,552)	1,645
	(1,142)	**(328)**
Add (less) items classified as investing or financing activities:		
Non-current employee benefit entitlements	7	(21)
Net gain on sale of assets	346	(12)
Appreciation of Investment Property	(295)	(2,600)
Capital creditors	(1,388)	476
Payment of Lease Liabilities	57	40
	(1,273)	**(2,117)**
Net cash inflow from operating activities	**13,383**	**19,998**

D4. Reconciliation of Financing Activities

	2020	2019
	$000	$000
Term Loans	70,500	61,850
Derivatives - Cash flow hedges	6,035	4,665
Cash Movements		
Movement in borrowings	8,650	6,300
Dividend paid	(6,300)	(7,000)
Payment of lease liabilties	(57)	(40)
Net financing cash inflows (outflows)	**2,293**	**(740)**

D5. Leases as a Lessee

Leases as a Lessee

	2020	2019
	$000	$000
Expenses related to short-term leases	1,406	1,708
Expenses related to low-value assets	34	40
Total cash outflow for leases *Includes above plus additional equipment for logging operations*	1,476	1,791
Interest expense on lease liabilities	6	2

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

	2020	2019
	$000	$000
Within one year	227	26
Between one and five years	442	-
Minimum finance lease payments	**669**	**26**
Future finance charges	(57)	(1)
Total Finance Lease Liabilities	**612**	**25**
Included in the financial statements as:		
Trade and other payables	195	25
Lease Liabilities	417	-
Total Finance Lease Liabilities	**612**	**25**

Finance Leases

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

D6. Related Party Disclosures

		2020	2019
		$000	$000
Nelson City Council	Services Provided by Port Nelson	153	143
	Services Provided to Port Nelson	864	906
	Accounts Receivable by Port Nelson	37	21
	Accounts Payable by Port Nelson	16	16
	Dividends Payable by Port Nelson	1,250	2,000
	Dividends Paid by Port Nelson	3,150	3,500
Tasman District Council	Services Provided by Port Nelson	-	3
	Accounts Receivable by Port Nelson	-	3
	Dividends Payable by Port Nelson	1,250	2,000
	Dividends paid by Port Nelson	3,150	3,500
Nelmac	Services Provided to Port Nelson	-	87
	Accounts Payable by Port Nelson	-	7

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

D6. Related Party Disclosures (continued)

Directors

P Lough

Mr P Lough is a Director of Genera Limited that incurs a fumigation facility fee from Port Nelson. The amount received from Genera Limited was $22,599 for the year (2019: $31,213), and $260 was receivable at year end (2019: $987).

B Monopoli

Ms B Monopoli is an Associate Principal of Findex (NZ) Limited that provides accounting service to Port Nelson. The amount paid to Findex (NZ) Limited was $20,254 (2019: $3,623) and $1,898 was payable at year end (2019: $1,898). Ms B Monopoli is a Director and a Shareholder of Fried Eggs on Toast Limited that provided hospitality services to Port Nelson. The amount paid to Fried Eggs on Toast Limited was $1,727 for the year (2019: $1,242) and $nil was payable at year end (2019: $nil). Ms B Monopoli is also a Trustee of Light Nelson Trust that receives sponsorship from Port Nelson. The amount paid to Light Nelson Trust was $nil for the year (2019: $nil), and $nil was payable at year end (2019: $nil).

T King

Mr T King is Mayor of Tasman District Council, a 50% shareholder in Port Nelson Limited. The amount paid to Tasman District Council was $3,150,000, relating to dividends, (2019: $3,500,000,) for the year and $1,125,000 was payable at year end (2019: $2,000,000). The amount received from Tasman District Council Limited was $nil for the year (2019: $2,726), and $nil was receivable at year end (2019: $2,726).

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 $11,500 (2019: 4,025) and $nil was payable at year end (2019: $nil). The amount received from Quality Marshalling Limited was $nil for the year (2019: 1$,436), and $nil was receivable at year end (2019: $nil).

Key Management Personnel

M Byrne

Mr M Byrne was a Board Member of Big Brothers Big Sisters (resigned during 2018) that receives sponsorship from Port Nelson. The amount paid to Big Brothers Big Sisters was $1,250 (2019: $3,750) and $nil was payable at year end (2019: $nil). Mr M Byrne was a Board member of Nelson Cricket Association (resigned during 2018) that receives sponsorship from Port Nelson. The amount paid to Nelson cricket Association was $14,691 (2019: $8,625) and $nil was payable at year end (2019: $nil).

D Wehner

Mr D Wehner is a Director of Nelson Marlborough Institute of Technology Limited (NMIT) that leases land from Port Nelson and provides training courses to Port Nelson. The amount received from NMIT was $nil for the year (2019: $1,495), and $nil was receivable at year end (2019: $nil). The amount paid to NMIT was $4,748 (2019: $583) for the year, and $nil was payable at year end (2019: $nil).

M MacDonald

Mr M MacDonald is Director of Nelson Airport Limited that provides public services to Port Nelson. The amount paid to Nelson Airport Limited was $1,699 for the year (2019: $2,564), and $nil was payable at year end (2019: $nil).

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

	2020	2019
	$000	$000
Salaries and Other Short-Term Benefits	1,754	1,653

D7. Contingent Assets and Liabilities

As at balance date there were no contingent assets or liabilities.

D8. Events After Balance Date

Port Nelson is unaware of any other significant events between the preparation and authorisation of these financial statements on September, 25 2020.

"It is a privilege for the Port and its staff to be in a position to support the growth and prosperity of Te Tauihu, and in particular to work with the exporters and importers of our region."

PORT NELSON

Port Nelson
Nelson 7010, New Zealand