

NAPIER^o
PORT

OUR PEOPLE YOUR GROWTH

PORT OF NAPIER LIMITED ANNUAL REPORT 2014



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Napier is Central New Zealand's leading international sea port.

Our customer base extends well beyond Hawke's Bay, into the furthest corners of Central New Zealand.

This year we feature an example of an extended supply chain, one that originates in Karioi, near Ohakune.

A partnership between our customer WPI, KiwiRail and Napier Port...

BETTER PEOPLE  **BETTER ANSWERS**

Cover: Hughe Ede, Senior Operator, WPI Night Crew

Chace Rodda, Launch/Tugmaster

RETIRING CHAIRMAN, JIM SCOTLAND

“It has been a privilege to Chair the Board of Napier Port over a turbulent and challenging period. Notwithstanding major changes in cargo handled and the global financial crisis, Napier Port has continued to grow and prosper. While imports have fallen over the past ten years, principally due to declining fertiliser volumes, export volumes have increased substantially. Containers handled (TEUs) have increased by 70% and total revenue increased by 80% during the same period.

Our key focus during the past decade has been to ensure all major container shipping services continue to call in Napier, and in providing a full range of markets, destinations and export opportunities to our shippers.

We have achieved this by increasing service levels and improving our capability platform, while extending our catchment by working with stakeholders such as KiwiRail, as well as attracting new customers.

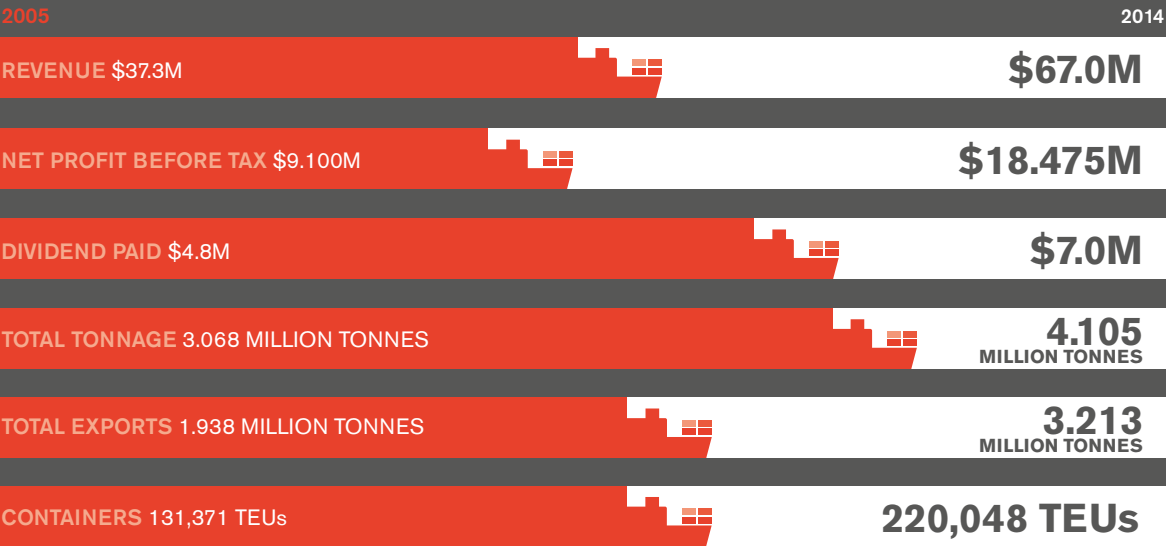
Napier Port’s management and staff have met many challenges to grow the business in an

increasingly competitive and dynamic environment. The results over the past 10 years are clearly shown in the table below. Many of our staff, both long term and more recent employees, have improved their skills and career opportunities in a supportive, fair and safe, team environment and have embraced our recently introduced by-line – “Better People, Better Answers”.

There has also been very good support from our shareholder allowing Napier Port to reinvest in new infrastructure and technology. This will have to continue for the Port to maintain its national significance and pivotal infrastructural role for Central New Zealand. Directors and Management will have to carefully evaluate risk and reward amidst big ships, hub ports, increasing safety concerns and other debates. Napier Port will continue its aim to be New Zealand’s safest port.

I would like to acknowledge the support, friendship and professionalism of the Directors I have been associated with during my time on the Board. Their advice and counsel has been truly valued. I leave Napier Port, confident it is in excellent hands.”

10 YEAR GROWTH HIGHLIGHTS



CHAIRMAN DESIGNATE, ALASDAIR MACLEOD



“The Port has been well served from a governance point of view over its history. Against that background Jim Scotland has still managed to stand out as an exemplary Chair – focusing on safety, people, and growth, and on representing the community to the Port, and the Port to the community.

He has left a big hole that will be hard to fill. I will continue to focus on similar issues, and in the same order – safety, people, and growth – while still acknowledging the pivotal importance of Napier Port in serving the needs of Central New Zealand.

The opportunities, and the challenges, are huge – but Jim’s wise stewardship means we are well-placed to continue to grow on solid foundations. Managing continued growth in a constrained physical environment and in an almost unconstrained competitive environment will not be easy...but for the sake of the wider region, we have no option but to succeed.

Whether we can succeed on our own, or in concert with others, is a challenge for our next period of growth.”

CENTRAL NEW ZEALAND'S LEADING INTERNATIONAL SEA PORT

ANOTHER RECORD YEAR, RECONFIRMS NAPIER'S POSITION AS THE LEADING, AND FASTEST GROWING, INTERNATIONAL CONTAINER PORT IN CENTRAL NEW ZEALAND

CONTAINER VOLUME GAIN OF 6.8% TO REACH 220,048 TEUs

Growth rate compares favorably to the reported gain of 3.3% in the top 100 terminals globally, covering all markets and trade lanes. Full container volumes have grown by 40% over the last five years. Napier Port expects total container volumes to experience another significant lift of approximately 20% this coming year.

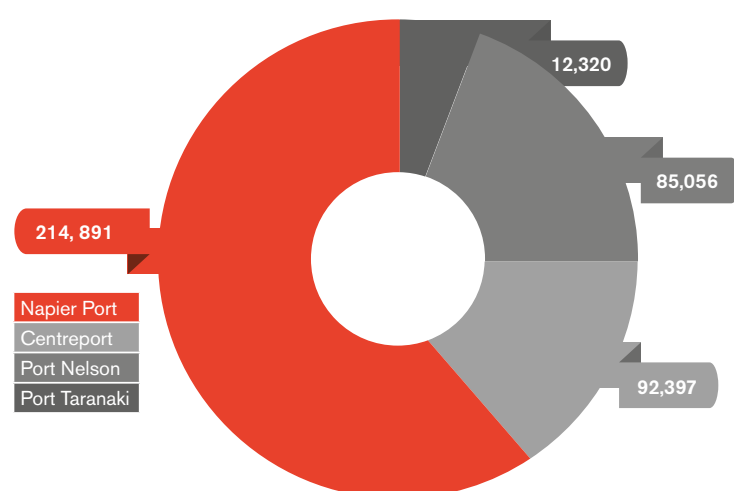
HANDLING OVER 8% OF NEW ZEALAND'S TOTAL EXPORTS BY WEIGHT

This makes Napier a nationally significant infrastructure asset.

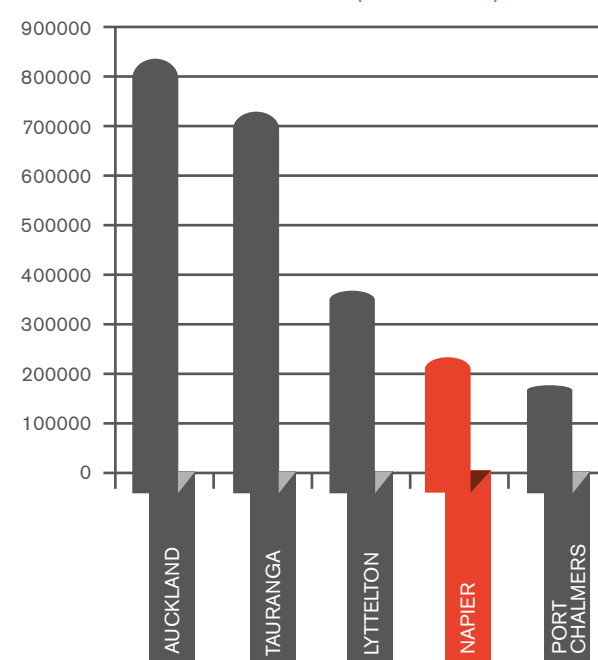
2.4M TONNES BULK CARGO, 3.2% GROWTH FOR THE YEAR

Growth in bulk cargo is broadly in line with New Zealand's GDP rate, despite the slowdown in exports, particularly China's reduced demand for forestry products.

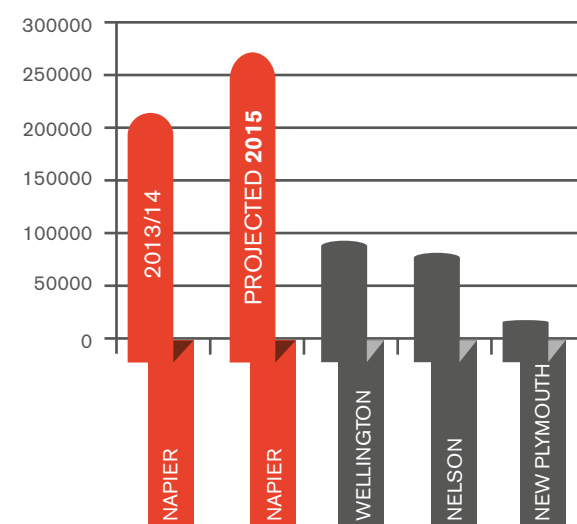
NAPIER PORT'S VOLUME IS 13% LARGER THAN THE COMBINED VOLUME OF OTHER CENTRAL NEW ZEALAND CONTAINER PORTS (TOTAL TEUs)*



NAPIER PORT IS THE 4TH LARGEST CONTAINER TERMINAL IN NEW ZEALAND (TOTAL TEUs)*



CENTRAL NEW ZEALAND CONTAINER TERMINAL THROUGHPUT (TOTAL TEUs)*



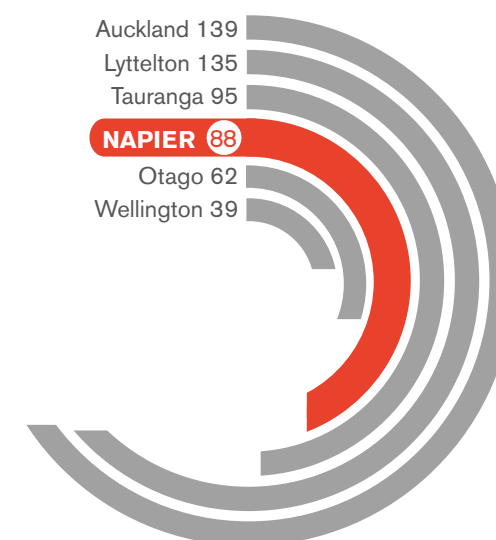
BIG SHIP CAPACITY WITH 12.4M DRAFT NAPIER CONTINUES TO HANDLE THE BIGGEST CONTAINER VESSELS IN NEW ZEALAND

Napier sits alongside the other major New Zealand container ports (Auckland, Tauranga and Lyttelton) in handling the largest vessels, those with greater than 4000 TEUs capacity, operating on New Zealand's coast.

AS WELL AS THE LARGEST CRUISE VESSELS SAILING IN NEW ZEALAND

New records were again set during the year with the maiden call of the cruise vessel *Celebrity Solstice* – 317m length overall and beam of 36.88m. This is the largest vessel of any kind to visit Napier Port.

BIG SHIP CALLS > 4000 TEUs*



FURTHER DREDGING TO ACCOMMODATE THE INCREASING NUMBER AND SIZE OF VERY LARGE VESSELS

A 12 month dredging programme covering both inner and outer swing basins is due for completion by December end. Napier can now handle vessels up to 12.4m draft, the maximum expected for the foreseeable future as a mid-port New Zealand call, as Napier is. It will also enable very large cruise vessels to be turned in the sheltered outer swing basin, prior to being backed into port as part of berthing manoeuvres for big vessels.

BIG SHIP HANDLING TECHNOLOGY UPDATED

Napier is one of the few New Zealand ports to have invested in a Dynamic Under Keel Clearance system (DUKC). This is used to safely manage the increasingly greater drafts of large vessels and to provide an extended time window around high tide for the deepest vessels to transit to/from port. During 2014 another DUKC system upgrade was completed to enhance big ship handling capability.

*Source: Ministry of Transport, Freight Information Gathering System (FIGS). Report July 2013 - June 2014

EXTENSIVE SHIPPING SERVICES TO MATCH CARGO GROWTH

UNMATCHED IN CENTRAL NEW ZEALAND

Fifteen major container shipping lines each offer 10 year-round, weekly liner services ex-Napier, an un-matched choice compared to central New Zealand neighbours.

TWELVE CONTAINER SERVICES IN PEAK SEASON

Importers and exporters enjoyed unprecedented choice during the 2014 peak season, providing competitive options and ocean freight savings. In 2015 customers can expect even more choice as one new supplier begins servicing the New Zealand market with greater capacity on larger vessels.

An additional log trailer gantry has been installed to efficiently handle the growth in log volumes.

FLEXIBLE, ADAPTABLE CUSTOMER RESPONSIVE APPROACH

ABILITY TO QUICKLY MOVE IN LINE WITH CUSTOMER NEEDS

In order to provide bulk customers with greater berth flexibility, the Port successfully delivers pulp and timber to ship-side using a fleet of trucks (in conjunction/partnership with stevedores). This effectively increases the number of general cargo working berths to four berths from one or two previously. Recent developments mean two major exporters are migrating their current general cargo shipping method into containers, resulting in substantial container growth in 2015. The Port provided a complete service solution (infrastructure, labour and machines) to accommodate this request in a short period of time.

DEMONSTRATING SUPPORT OF CUSTOMERS

In the ever dynamic log trade, Napier accommodated substantial growth on-port for out of region cargo while maintaining service levels to existing customers. During the 2014 peak season Napier Port was able to completely alter its operational land footprint to cater for an unexpected container surge in March. The Port prides itself on its flexibility to meet customer demand.



Samm Fieldhouse, Packing Operations Coordinator, Port Pack

A DAY IN THE LIFE OF AN EXTENDED SUPPLY CHAIN

1

CHALLENGE:

Working with a business whose lengthy supply chain starts in a remote forest, far from Napier Port.

SOLUTION:

Partnership. The Port's team works with Winstone Pulp International (WPI) to help facilitate a complete end-to-end supply chain solution.

2

CHALLENGE:

Ensuring that minimal post-production storage is required by WPI at their sites.

SOLUTION:

Dependability. Working closely with KiwiRail to provide a reliable daily rail service; three trains looping continuously, Karioi-Napier-Karioi.

3

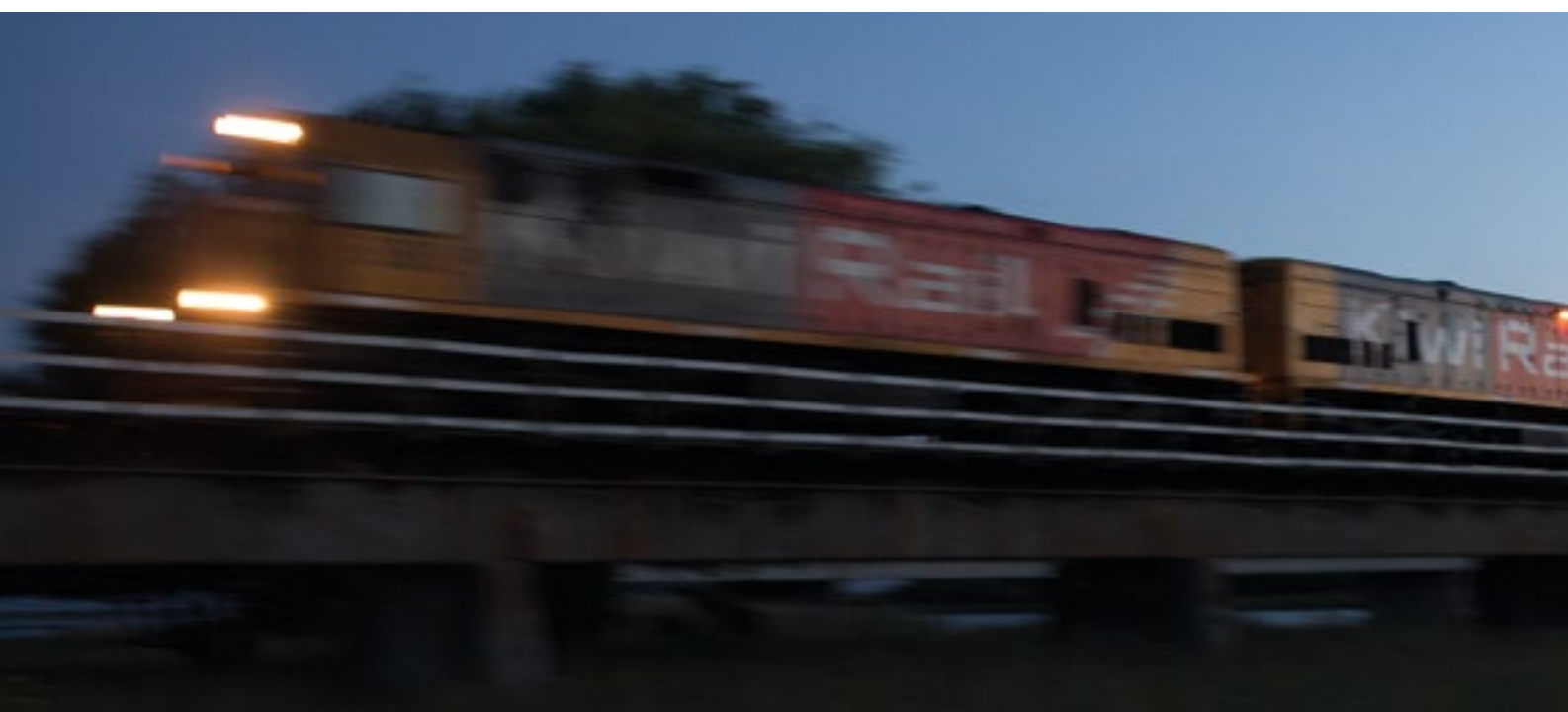
CHALLENGE:

Moving weather sensitive cargo hundreds of kilometres to Napier Port.

SOLUTION:

Tailor made. KiwiRail designed and built new wagons for WPI, enabling all cargo to be delivered in export-ready condition.





4 CHALLENGE:
Scheduling of teams and work to accommodate nightly arrival of the WPI train onto Port.

SOLUTION:
Flexibility. Working around any arrival delays due to weather or track conditions.

11 Job done. Off to market.

10 CHALLENGE:
Keeping customer satisfied.

SOLUTION:
Dedication. Whatever emerges to challenge an export booking, the job will be completed successfully.

9 CHALLENGE:
Moving containers directly into terminal once packed in readiness for export.

SOLUTION:
Smart logistics. Minimise requirement to transport goods within Port by using an integrated packing facility adjacent to the container terminal.



BETTER PEOPLE • BETTER ANSWERS

NAPIER PORT
SERVICING EXTENDED
SUPPLY CHAINS.

5 CHALLENGE:
Keeping the train always moving to schedule.

SOLUTION:
Commitment. Unload each train by 3am every morning, regardless of what time it arrived the previous night.

6 CHALLENGE:
Moving pulp from 24 wagons each night into a dedicated warehouse without damage, then again in a timely manner as export bookings are confirmed by WPI.

SOLUTION:
Specialisation & complete care. Purpose-built shed plus a specialist night crew to reliably move each train-load; employing an additional shift of staff, up to 6 days per week.

7 CHALLENGE:
Maximising container stow, without packing errors or damage.

SOLUTION:
Planning. Creation of a dedicated WPI packing crew, increased emphasis on quality outcomes.

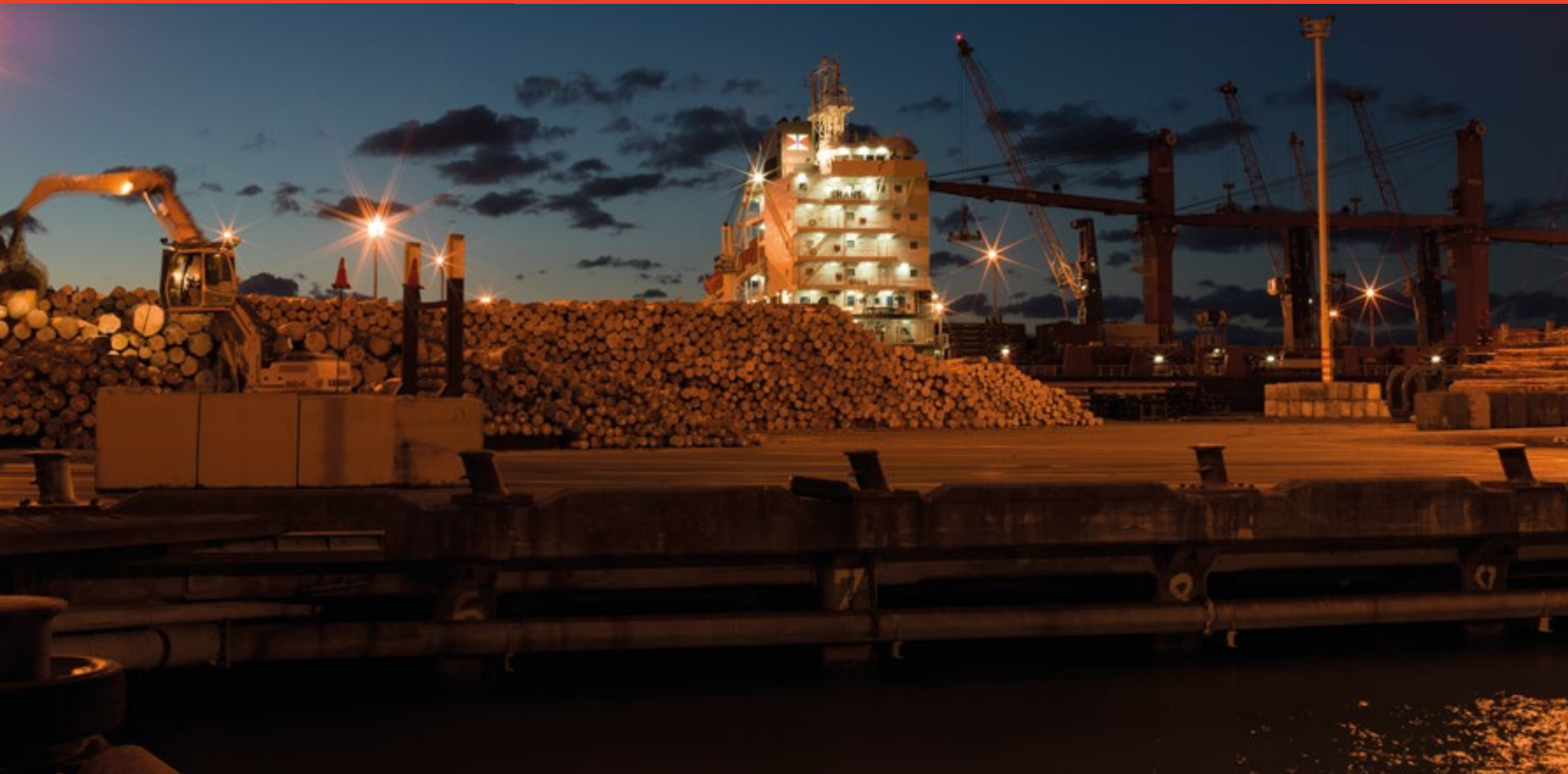
8 CHALLENGE:
Completion of all packing, never failing an export booking.

SOLUTION:
Co-ordination. Planning, modelling and scheduling of all resources: pulp/timber, empty containers, labour and time.



Ray Young, Leading Hand, Mooring

FINANCIALS



The Company's EBITDA for the financial year increased 8.5% to \$29.3 million. This was a very pleasing result which was achieved from strong growth in most trades. Net operating cash flows also increased to \$23.4 million, reflecting the strong underlying earnings of the Port's core business.

Net profit after tax for the 2014 year was a record \$13.4 million.

The Port's re-investment programme for the year was \$19 million, which included the successful commissioning of two new Gottwald container cranes.

Several other projects commenced during the year are now nearing completion, including an off-port container depot, capital dredging, four hectares of log yard paving and new Port offices.

The Company earlier in the financial year increased its debt facility with Westpac Banking Corporation to \$110 million with favourable terms. This increased debt facility will fund the Port's future capital investment programme to increase service capacity to both shippers and shipping lines. At balance date \$62.5 million of this facility had been drawn down. The Company's debt to equity ratio remains at conservative levels.

INVESTING FOR THE FUTURE: MAJOR DEVELOPMENT PLAN RAMPS UP



GROWTH CHALLENGES

Coping with demand presented some challenges in early 2014, notably within the Container Terminal. A flurry of pip-fruit exports and the subsequent slow movement to off-port depots of significant stocks of empty containers led to congestion in the later part of March and early April. Transport operators and shippers should be reassured that improvements have been made to build terminal capacity for the 2015 peak season and beyond. These improvements include redesigning the container terminal gate with a sixth entry lane, along with increased queuing capacity and extended gate operating hours. Increased truck lanes within the terminal have also been added, whilst the introduction of a Vehicle Booking System will now commence on 1 June 2015. This revised start date gives shippers time to adjust to Vehicle Booking System requirements, with its impact after the seasonal peak.

REEFER INTENSIFICATION

Modified export storage capacity closer to the main container berth, including new four-high towers increasing refrigerated container stack heights reduces travel distance from terminal stack to ship, improving productivity.

CONSTRUCTION OF A NEW ADMINISTRATION BUILDING

The new Port Central Building (PCB) commenced during the year and is due for completion in mid 2015. The new facility is located on a boundary, significantly improving safety by reducing staff and visitor traffic on-port. Staff will relocate from four existing buildings to the PCB, the old structures being demolished to free up space for increased operational use. For the first time the majority of Napier Port staff will be accommodated in a single, future proofed facility – helping to further increase operational efficiencies.

SECOND CONTAINER BERTH USE

Allows dedicated storage of exports at a back-up berth – meaning less movement of containers and faster turn of vessels.

NEW CRANE UTILISATION

Increased crane driver resources and more consistent deployment of our newest cranes, all with twin lifting capacity - helping process vessels more effectively, resulting in improved yard and berth productivity.

NEW OFF-PORT EMPTY DEPOT

Located in the Napier industrial area of Pandora, our new Thames St operation is a \$5.4 million development to increase on-port storage capacity of exports during peak season months. The new Thames Street Empty Container Depot will be fully operational in early 2015.

INCREASED FORKLIFT AND DRIVER CAPACITY

By late 2014, we will have commissioned four new forklifts in preparation for the 2015 peak season. Over the last three years, our forklift fleet has grown from 16 to 28 together with a matching increase in driver numbers – providing increased backup and more time for planned maintenance.

MAIN LOG TERMINAL HARD STANDING

An extensive 4.6 ha staged paving project costing \$7.2 million is almost complete. Tarmac surfaces provide more operational flexibility; once complete the improved surface will allow logs to be stacked more densely, providing efficiency improvements as well as environmental benefits – reduced dust and bark cleanup.

DEVELOPMENT WORK - NEXT STAGES

\$40 million of capital has been spent on development projects over the 2013 and 2014 financial years. The 50 Year Infrastructure Master Plan was reviewed following the annual strategic planning process. Revised growth projections highlight that a significant infrastructure development programme is required at an estimated value of \$80 million and \$140 million over the next five and 10 years respectively. The developments will include:

- New large vessel wharf design and construction – to provide more berthing options
- Strengthening of main container berth to more efficiently handle wider beam vessels – bigger ships also pose landside challenges in addition to dredging investment
- Further intensification of container terminal storage including more reefer towers - increased storage density will reduce running distances from stack to vessel, improving productivity
- New, improved capacity container terminal handling equipment – capable of stacking containers higher and more efficiently, especially when working larger vessels
- Further upgrade of rail capacity – investment required to match Napier's cargo-reach increase; more cargo being carried by rail from further afield
- More off-port depot development – ultimately all empty container processing will move off-port to free up on-port space for cargo storage.



Nick Petkovich, Senior Packing Operator, Port Pack

BUSINESS DEVELOPMENT



CARGO-REACH EXTENDS

Napier Port continues to attract volume growth from beyond Hawke's Bay with more cargo moving by rail from Palmerston North and Whanganui. The trend is set to continue with strong 2015 volumes forecast from these areas. Napier Port catchment continues to expand with volumes moving to and from Napier as far south as Wellington, to southern Waikato in the north and New Plymouth in the west.

Longburn Intermodal Freight Hub (LIFH)

In February 2015, LIFH will open for business at Longburn, Palmerston North. LIFH is a joint venture between Napier Port, Ports of Auckland and Manawatu logistics provider Icepak. Longburn is the ideal location for an intermodal freight hub, providing on-site cold and dry goods storage, with well-developed rail and road connections to other centres and plenty of space to grow and locate supporting industries. LIFH places Napier Port's container terminal at the doorstep of Manawatu shippers – helping reduce the cost of import and export supply chains.

Ruataniwha Water Storage Scheme (RWSS)

The RWSS long term sustainable water supply solution for Central Hawke's Bay is working its way towards a financial close-out. In the event that this objective is successfully met, the flow-on effects in time for the wider Hawke's Bay region are expected to be significant. Similar projects elsewhere in New Zealand have led to improved regional outcomes - RWSS should lead to a sustained uplift for Napier Port, most likely in value added exports.

BETTER PEOPLE, BETTER ANSWERS: INCREASE IN FTEs

NAPIER PORT IS A GOOD NEWS STORY

Recruitment activity during the last 18 months has bucked regional and national employment trends. We have experienced a 14% full time equivalent (FTE) lift over the past 18 months, equal to an extra 25 FTEs. The focus continues to be improving leadership skills, and capability for growth. Most increases have been to front-line operational and supervisory staff to service seasonal demands as well as cater for overall growth.





Jared Sheriff, General Cargo Logistics Planner

CULTURE AND CAPABILITY DEVELOPMENT

STATE OF THE ART CRANE SIMULATOR ORDERED

New crane simulation technology is in development and due in 2015. The simulator will improve Napier Port's recruitment and training of Mobile Container Crane Operators as well as the ongoing development of existing operators. The Vortex simulator is the first of its kind in a New Zealand port environment. It will build on our simulation training approach used within our marine team. It will also result in less wear and tear on equipment and support improved health and safety outcomes.

CHANGE MANAGEMENT

Managing the level of change associated with growth is an on-going challenge. We continue to develop our change management disciplines to keep pace with that growth. Continuous improvement is critical as we develop our processes and procedures, and formalise our training framework.

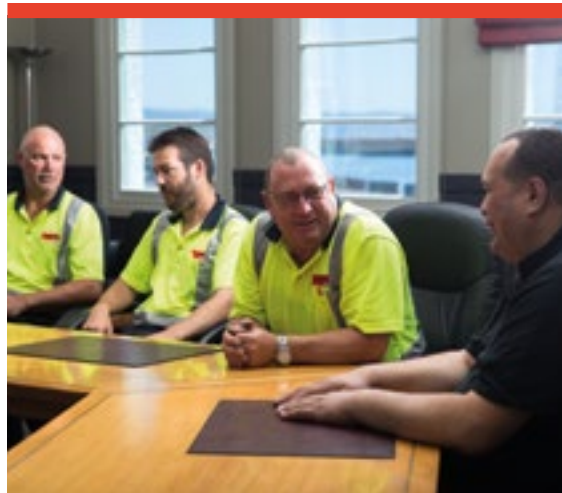
LEADERSHIP AND MANAGEMENT DEVELOPMENT

Napier Port's leadership structure has been progressively reshaped over the past three years, providing foundations for growth. Our leadership capability has grown and diversified – new leadership positions have allowed us to recruit externally, introducing new skills as well as progressing internal staff. Particular focus in 2013/14 has been around development of our management disciplines, change and performance management as well as leadership development at all levels.

EMPLOYEE ENGAGEMENT

An employee survey undertaken earlier in the year highlighted the strong commitment and engagement of Napier Port employees.

TEAM LEADERS



We have focused strongly on formalising teams and Team Leader roles. Our Operations Team Leaders are responsible for day to day safety leadership and work practices on the ground. All Team Leaders and emerging leaders have participated in leadership development. This focus and investment over two years has seen positive changes in the overall culture - including better reporting of incidents, and a stronger connection to the wider Operations Team and Company.



Viv Bull, Culture and Capability Manager

STRATEGIC LEADERSHIP TEAM

A wider group of staff and managers are now involved in the strategic oversight of the Company. The Strategic Leadership Team comprises more than 20 senior and middle managers as well as more senior technical staff.

The team meets quarterly to oversee progress against the Annual and Ten Year Strategic Plans as well as contributing to yearly updating of the Plans. The team has also undertaken a range of capability development training.

The forum encourages all staff to put their ideas forward and engage constructively, ensuring a broader base to our strategic thinking, and fostering stronger buy-in and wider understanding of priorities.

HEALTH AND SAFETY

INDEPENDENT HEALTH & SAFETY REVIEW

Impac Services noted that Napier Port continues to make genuine and sustained improvements in its leadership, engagement and practices. Napier Port moved up the health and safety maturity index from a “Calculative” level to sit at “Proactive”, achieved with the on-going commitment and support of our staff, unions and Board. This includes:



- The challenges of a new health and safety environment have helped keep it a prominent part of all thinking. Our wider responsibilities to the Port community continue to be central to our thinking as we transition to this new environment.
- A Board Health and Safety Governance Committee was established to guide and provide focus as we shift to the new environment. Additional dedicated health and safety resources have been recruited to help gear up for changes.
- Random drug and alcohol testing was successfully introduced with the co-operation and involvement of our unions and staff. We now seek to introduce random testing for all Napier Port users and visitors.
- Two Lost Time Injuries were recorded for the period, both minor resulting in three days lost.
- Traffic safety improved with stevedoring and marshalling employees’ personal vehicles being required to be parked off-port. This reduced traffic in operational areas by more than 20,000 movements annually.

SUSTAINABILITY

Measures are in place across the full business spectrum, including economic, environmental and social aspects. Core environmental measures and reporting cover:

NOISE

Real time monitoring equipment, installed in 2011 is used in both a reactive and proactive manner. The constant monitoring of noise levels enables various operational activities to be closely managed ensuring that noise is maintained within set limits. Whilst some complaints from residents were received during 2014, we were able to show that noise levels continue to be managed within the set limits on all occasions.

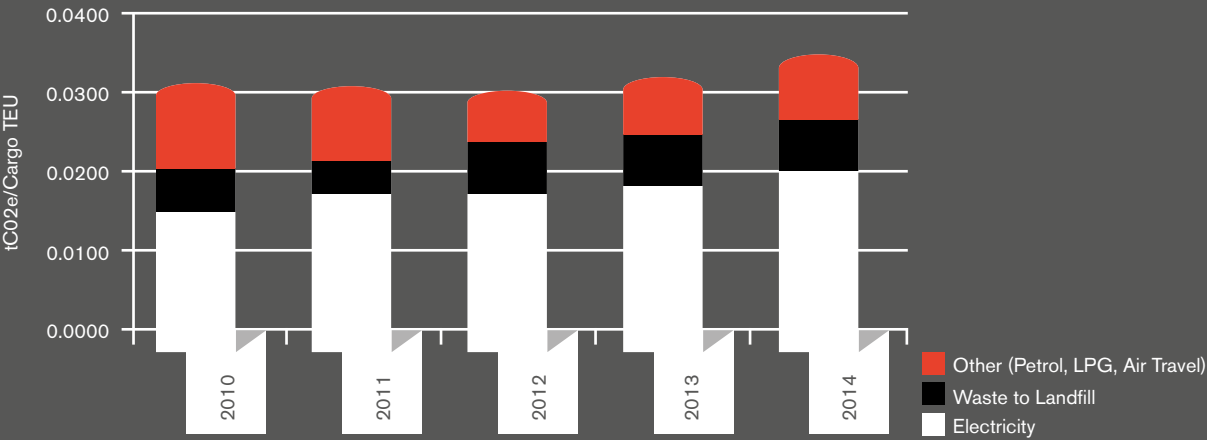
GREENHOUSE GAS EMISSIONS

Continued growth, refrigerated cargoes and general cargo in particular, has pushed up overall greenhouse gas emissions. Despite this continued growth, waste to landfill for the year was down 40%, contributing to a 15% reduction in emissions associated with “electricity line losses/air travel and waste”.

RECYCLING OF BARK

Considerable bark waste accumulates in log handling and storage areas which amounts to 7,000 tonnes a year to be disposed of. The figure is significant due to the amount of dirt and mud that mixes in with bark on unsealed surfaces, either in the bush after harvesting, or once stored at Port. Napier Port contracts with a bark recovery company which separates and cleans the bark prior to recycling it for further use as landscaping material. The current log hardstand project will have a major environmental benefit, eliminating on-port mud accumulation. This change will reduce the amount of waste bark by 5,000 tonnes per year.

GREENHOUSE GAS EMISSIONS



Source: Ministry of Transport, Freight Information Gathering System (FIGS). Report July 2013 - June 2014

STAKEHOLDER AND COMMUNITY ENGAGEMENT

TRANSPORT INDUSTRY

Without effective transport networks, Napier Port would struggle to handle different cargoes efficiently. In a production/export-dominated region such as Hawke's Bay, the Port is a significant influence in the movement of heavy transport where freight is proportionately more dominant compared to the passenger transport bias of metropolitan cities. In view of this, Napier Port is an active participant in a range of forums to ensure our shippers' and transport operators' needs are effectively served by roading policy-makers and authorities. We try to future proof Port infrastructure, but without complementary off-port infrastructure our ability to grow may be stymied. We don't differentiate between road, rail or sea, given the mode of choice frequently changes. Our task is to ensure we efficiently handle whatever mode our shippers use. We're appreciative therefore of the support received from KiwiRail, NZTA, Regional Transport Committee, Territorial Local Authorities, Ministry of Transport, Maritime NZ, New Zealand Police and regional operators. While being reasonably satisfied with the current state of progress, we're concerned about two significant interregional network issues.

The first is the dependability of numerous older bridges in the event of a major earthquake. The other is the highly questionable resilience of the Manawatu Gorge as a critical and efficient route for both road and rail users between the broader southern North Island's eastern corridor and all points west and south. Improving the strategic network serving a significant part of New Zealand's export oriented economy will be a focus of Napier Port future efforts.

ECONOMIC DEVELOPMENT

Napier Port is a key financial supporter of Business Hawke's Bay, the region's economic development agency. During 2014 the Port recommitted its financial backing for a further three years as a measure of confidence in the progress being made by Business Hawke's Bay to retain, grow and attract vibrant businesses to the region.

SPONSORSHIP

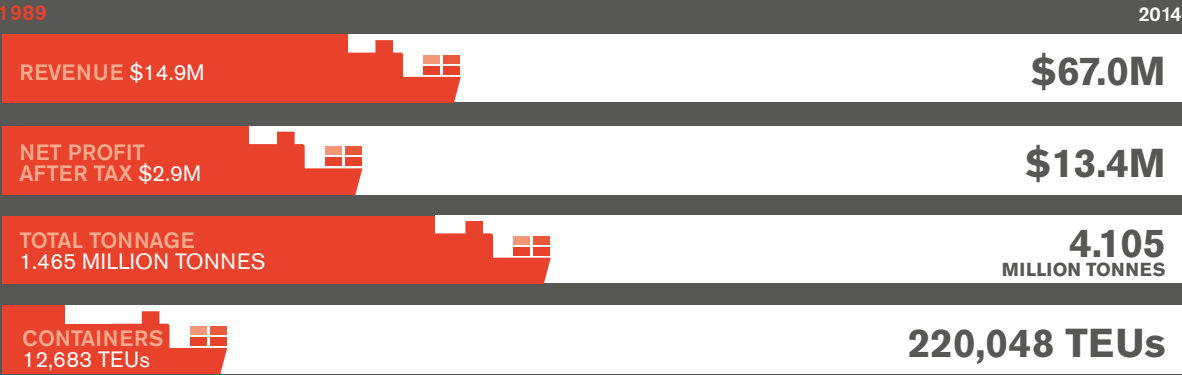
Following a review of sponsorship activity, a number of new arrangements added to the extensive list of organisations and events supported by Napier Port. These were the Napier Port Hawke's Bay Primary Sector Awards, Napier Port Youth Games Team, Napier Port Ocean Swim, Napier Port Paddle for Hope and Te Matau a Maui Trust's Waka Experience.

A GENERATION ON...

25 YEARS SINCE NAPIER PORT ESTABLISHED

Port industry deregulation in the late 1980's ushered in a sea change in how New Zealand ports were operated. Previously not-for-profit Harbour Boards "administered" ports, with Container Terminal investment licensed by central government. This structure was restrictive to most Harbour Boards and placed limits on the effectiveness of many port operations. Since 1989, Napier Port has significantly grown, now handling the vast majority of the Hawke's Bay's cargo base which had in part been previously shipped through other New Zealand ports. With customer-oriented investments, shipping services have grown over most years in the intervening period. 1989 saw 12,683 TEU containers being handled with an annual cargo throughput of 1.465 million tonnes. Revenues of \$14.9 million and a Net Profit After Tax of \$2.9 million in 1989, highlight the changed focus and significant growth the Company has enjoyed during the past 25 years.

25 YEAR GROWTH HIGHLIGHTS





Wayne Larsen, Marine Supervisor (and stand-in Tug Engineer)

MANAGEMENT TEAM AND BOARD OF DIRECTORS



BRUCE
LOCHHEAD
PORT
SERVICES
MANAGER

ANDREW
LOCKE
COMMERCIAL
MANAGER

CHRIS
BAIN
CHIEF
OPERATING
OFFICER

VIV
BULL
CULTURE &
CAPABILITY
MANAGER

JOHN
MATHESON
CHIEF
FINANCIAL
OFFICER

GARTH
COWIE
CHIEF
EXECUTIVE

WENDIE
HARVEY
DIRECTOR

JIM
SCOTLAND
RETIRING
CHAIRMAN

JOHN
LOUGHLIN
DIRECTOR

PAUL
HARPER
DIRECTOR

JON
NICHOLS
DIRECTOR

ALASDAIR
MACLEOD
CHAIRMAN
DESIGNATE

ABSENT: JOHN SHASKEY - DIRECTOR

CORPORATE GOVERNANCE

PRINCIPLES BEHIND CORPORATE GOVERNANCE

The Directors are elected by the Shareholder and are responsible for the corporate governance of the Company. Corporate governance describes how a company looks after the interests of its shareholders.

The Board of Directors is committed to maintaining best practice governance policies and behaviours. Policies are reviewed against applicable standards detailed in NZX's Corporate Governance Best Practice Code. The Board's governance framework adheres to the majority of applicable standards as if the Company were a listed public company.

While recognising that this Code expresses principles and does not purport to determine any detailed course of conduct, the Directors support the need for the highest standards of behaviour and accountability.

The Board and Management are therefore committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Company's Code of Ethics sets out the manner in which Directors and employees should conduct themselves.

The Board recognise good governance is not merely a matter of achieving legislative compliance but ensuring that exemplary standards and behaviour are maintained. This involves the establishment and maintenance of a culture at Board and senior management level and throughout the Company to ensure that the Directors and employees deal fairly with others, with transparency and protects the interest of the Shareholder and looks after the rights of stakeholders.

ROLE OF THE BOARD AND MANAGEMENT

The primary role of the Board is the protection and enhancement of Shareholder value in Napier Port while respecting the rights of other stakeholders. Good corporate governance is core to ensuring the creation, protection and enhancement of Shareholder value.

The Board oversees the business and affairs of the Company, establishes the strategies and financial objectives with Management and monitors the performance of Management directly and through Board Committees, monitors compliance and risk

management, and ensuring the Company has the appropriate controls and policies.

The Board has access to executive management, and key executive managers are invited to attend and participate in appropriate sessions of Board meetings.

BOARD COMPOSITION

The Company's constitution governs the composition of the Board and states that there shall be no more than nine Directors, nor less than six, and comprising of no more than two members or employees of the shareholding authority, who may hold office as Directors of the Company at the same time.

The Board currently comprises seven non-executive Directors, of whom six are classified as independent. Jim Scotland is the Chairman of the Board of Directors.

CONFLICT OF INTEREST

Where any Napier Port Director has a conflict of interest or is otherwise interested in any transaction, that Director is required to disclose his or her conflict of interest to the Company, and thereafter will normally not be able to participate in the discussion, nor vote in relation to the relevant matter. The Company maintains a register of disclosed interests.

BOARD AND COMMITTEE MEETINGS

The following table outlines the number of scheduled meetings attended during the course of the 2014 financial year. In addition to the scheduled Board meetings, Directors have also met with Management on a range of matters during the year.

	Board	Audit & Risk	Remuneration	Health & Safety	Strategy & Planning
Meeting type					
Meetings held	11	3	2	2	1
J Scotland	11	3	2	-	1
J Nichols	11	3	-	-	1
J Loughlin	11	3	-	2	1
S Reindler	2	-	1	-	-
P Harper	11	3	-	2	1
J Shaskey	10	-	2	1	1
W Harvey	10	-	1	2	1
A MacLeod	5	1	-	1	1

The Board of Directors has established three Committees for Audit & Risk, Health & Safety and Remuneration. The Chairman appoints the Chairs of these Committees.

AUDIT & RISK MANAGEMENT COMMITTEE

The Audit & Risk Management Committee operates under a Charter, which requires it to assist the Board in fulfilling its responsibilities to discharge its financial reporting and regulatory responsibilities, ensure the ability and independence of the external auditor to carry out its statutory audit role is not impaired, ensure an effective internal audit and internal control system is maintained and ensure an appropriate framework is maintained for the management of strategic and operational risk. The Charter is approved by the Board and reviewed annually.

AUDIT & RISK MANAGEMENT COMMITTEE:

J Nichols	Chair
J Loughlin	Director
P Harper	Director
A MacLeod	Director

REMUNERATION COMMITTEE

The Remuneration Committee operates under a Charter, which requires it to assist the Board in fulfilling its responsibilities, to appoint, remunerate and evaluate the Chief Executive and review remuneration recommendations of the Chief Executive for senior executives and make recommendations on any incentive plan for the Senior Management Group. The Charter is approved by the Board and reviewed annually.

REMUNERATION COMMITTEE:

J Scotland	Chair
W Harvey	Director
J Shaskey	Director

HEALTH & SAFETY COMMITTEE

The Health & Safety Committee was established to oversee the transition to a new Health and Safety legislative and regulatory framework. In particular, the Company recognises its responsibilities as the 'person conducting a business undertaking' on a multi-use site.

The Committee operates under a Charter, requiring it to assist the Board in fulfilling its responsibilities

in ensuring an appropriate framework is maintained for the management of the Company's strategic and operational health and safety risks during Health and Safety reform. The Charter is approved by the Board and reviewed annually. Following transition to the new Health and Safety at Work Act, the Committee's responsibilities will be reviewed and may revert to the wider Board.

HEALTH & SAFETY COMMITTEE:

W Harvey	Chair
J Loughlin	Director
P Harper	Director

BOARD PERFORMANCE

The Board has included in its Charter, a requirement to conduct a biennial review of the Board, Board Committees and individual Directors.

RISK MANAGEMENT

The Board and Senior Management are committed to managing risk to protect our people, the environment, financial business risks, Company assets and our reputation.

The Company has a comprehensive risk management system in place which is used to identify and manage all business risks. The system identifies the key risks facing the Company and the status of initiatives employed to reduce them. Management report to the Board six monthly, on the effectiveness of the Company's management of material risks. As part of risk management the Port also has a comprehensive Treasury Policy that sets out procedures to minimise financial market risk.

The Chief Executive and Chief Financial Officer have confirmed in writing to the Audit & Risk Management Committee that the Company's financial statements are in accordance with the accounting standards.

CODE OF ETHICS

Napier Port requires the highest standards of honesty and integrity from its Directors, Management and employees. A Code of Ethics has been developed and approved by the Board, which sets out the ethical and behavioural standards and professional conduct expected by the Company's Directors, Senior Management Team and employees.

DIRECTORS' REPORT

The Directors take pleasure in presenting their Report and Financial Statements of the Port of Napier Limited for the year ended 30 September 2014.

PRINCIPAL ACTIVITIES

The Company's principal activities remain the commercial operation of Napier Port. There has been no significant change in the nature of the Company's business during the year.

FINANCIAL RESULTS

The Financial Statements attached to this report form part of and should be read in conjunction with this report. The Directors consider there are no unusual or other matters, which warrant their comment other than those discussed, and the Company's situation is clearly stated by the Financial Statements.

The surplus of Port of Napier Limited for the year, after deduction of taxation was \$13.433 million (2013: \$11.830 million).

DIVIDENDS

During the year the 2013 final dividend of \$3.226 million and the 2014 interim dividend of \$3.767 million were paid totalling \$6.993 million.

DIRECTORS

In accordance with the Company's Constitution, Mr J Scotland and Mr P Harper retire on 15 December 2014.

REMUNERATION OF DIRECTORS

Remuneration paid to Directors during the year was as follows:

J Scotland (Chairman)	\$78,000
S Reindler (retired 16 December 2013)	\$9,750
P Harper	\$40,503
J Nichols (Chairman of Audit & Risk Management Committee)	\$43,503
J Loughlin	\$40,503
J Shaskey	\$40,503
W Harvey (appointed 16 December 2013)	\$30,753
A MacLeod (appointed 27 March 2014)	\$20,502

REMUNERATION OF EMPLOYEES

The number of employees whose total annual remuneration was within the specified bands was as follows:

\$100,000 - 109,999	15
\$110,000 - 119,999	16
\$120,000 - 129,999	7
\$130,000 - 139,999	2
\$140,000 - 149,999	1
\$160,000 - 169,000	2
\$170,000 - 179,999	3
\$180,000 - 189,999	1
\$200,000 - 209,999	3
\$210,000 - 219,999	1
\$220,000 - 229,999	2
\$310,000 - 319,999	1
\$540,000 - 549,999	1

The annual remuneration of employees includes salary, redundancy, short and long term performance incentive payments on achievement of targets, employer's contribution to superannuation and other sundry benefits received in their capacity as employees.

DIRECTORS' INSURANCE

The Company has arranged policies of Directors' Liability Insurance, which together with a Deed of Indemnity ensures that as far as possible Directors, will not personally, incur any monetary loss as a result of actions undertaken by them as Directors. The insurance does not cover liabilities arising from criminal actions.

DIRECTORS' INTERESTS

The following notices have been received from Directors disclosing their interests in other companies.

MR JA SCOTLAND

Scotland Services Ltd	Director / Shareholder
Ahuriri Properties Ltd	Director
3 R Group Limited	Chairman / Shareholder
Landmac Holdings Ltd	Director
The Crown Hotel (2006) Limited	Director
Hawke's Bay Airport Limited	Director
Gilray Ridge Limited	Director
Hawke's Bay Regional Investment Company Limited	Director

MS W HARVEY

Excellence in Business Solutions Limited	Director / Shareholder
Quality Roding and Services (Wairoa) Limited	Director
Centralines Limited	Director

MR P HARPER

Lodestar Enterprises Limited	Director
Pacific Link Limited	Director
Health Benefits Limited	Director
Health Alliance Limited	Director
Netlogix Limited	Director / Shareholder
Netlogix Intermodal Limited	Director
Nexus Logistics Limited	Director

MR JP SHASKEY

Global Dairy Network Limited	Director
Global Dairy Network Holdings Limited	Director
Great Dairy Nutrition Limited	Director / Shareholder
Bowrock Properties Limited	Director / Shareholder
La Reforma Limited	Director / Shareholder
Global Dairy Traders Limited	Director

MR JE NICHOLS

Nichols Consulting Limited	Director / Shareholder
Mid Central Zone Rugby League (resigned April 2014)	Director
Centralines Limited	Director
Palmerston North Airport Limited	Director
Hastings District Council Audit & Risk Sub Committee	Independent Member

MR JJ LOUGHLIN

Augusta Capital Limited & subsidiaries/associates	Director / Shareholder
Tru-Test Corporation Limited	Chairman / Shareholder
Askerne Estate Winery Limited	Chairman / Shareholder
Loughlin Viticulture and Consulting Limited	Chairman / Shareholder
Firstlight Foods NZ Limited & subsidiaries/associates	Chairman
AgResearch Limited (resigned April 2014)	Director
Powerco Limited	Chairman
EastPack Limited	Director

MR AJ MACLEOD

Optimal Product Limited	Director
Silverstripe Limited	Director / Shareholder
Hold Fast Investments Limited	Director

USE OF COMPANY INFORMATION

During the year the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

AUDIT FEES AND OTHER SERVICES

Under Section 19 of the Port Companies Act 1988, the Auditor-General is the Auditor of the Company. The Auditor-General has appointed Ernst & Young to undertake the audit on its behalf, pursuant to Section 15 of the Public Audit Act 2001.

Fees paid to the Auditors are disclosed in the financial statements.

PERFORMANCE INDICATORS

As required under Section 16 of the Port Companies Act 1988, performance indicators in the Statement of Corporate Intent are given below:

COMPARISON WITH STATEMENT OF CORPORATE INTENT

	TARGET	ACTUAL
		2014
Net Debt to Net Debt plus Equity	20-40%	26%
Earnings before Interest and Tax to Interest Expense	>3 Times	6.1 Times
Earnings before Depreciation, Interest and Tax to Total Non-Current Assets	13.0%	11.2%
Operating Surplus after Tax to Shareholder's Funds	8.0%	7.4%

Earnings and operating surplus exclude the net surplus on the sale of assets.

Total non-current assets and shareholder's funds are the average of the opening and closing amounts and interest expense includes interest capitalised.

JIM SCOTLAND JON NICHOLS
Chairman Director

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2014

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Notes	2014 \$000	2013 \$000
Revenue from Port Operations		66,996	62,081
Revenue Other		20	16
Operating Income	4	67,016	62,097
Employee Benefit Expenses		18,020	15,968
Maintenance Expenses		7,748	7,336
Other Operating Expenses	5	11,979	11,815
Operating Expenses		37,747	35,119
Results From Operating Activities		29,269	26,978
Depreciation & Amortisation Expenses	14,15	7,185	7,267
Operating Profit Before Net Financing Costs		22,084	19,711
Finance Income	6	(5)	(1)
Finance Expenses	6	3,614	3,401
Net Finance Costs		3,609	3,400
Profit Before Taxation		18,475	16,311
Income Tax Expense	7	5,042	4,481
Total Tax Expense		5,042	4,481
Profit for the period attributable to the Shareholder of the Company		13,433	11,830

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Notes	2014 \$000	2013 \$000
Profit after Tax attributable to the Shareholder of the Company		13,433	11,830
Other comprehensive income			
Net effective portion of changes in fair value of cashflow hedges		(105)	2,038
Total comprehensive income		13,328	13,868

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2014

\$000	Notes	Share Capital	Revaluation Reserve	Hedging Reserve	Retained Earnings	Total Equity
BALANCE AS AT 1 OCTOBER 2013		21,000	62,008	(759)	95,010	177,259
Profit after Tax attributable to the Shareholder of the Company		-	-	-	13,433	13,433
Net effective portion of changes in fair value of cashflow hedges		-	-	(105)	-	(105)
Total comprehensive income		-	-	(105)	13,433	13,328
Dividends	9	-	-	-	(6,993)	(6,993)
Total transactions with the Owner in their capacity as owner		-	-	-	(6,993)	(6,993)
Total movement in equity		-	-	(105)	6,440	6,335
BALANCE AS AT 30 SEPTEMBER 2014	10	21,000	62,008	(864)	101,450	183,594

\$000	Notes	Share Capital	Revaluation Reserve	Hedging Reserve	Retained Earnings	Total Equity
BALANCE AS AT 1 OCTOBER 2012		21,000	62,008	(2,797)	89,261	169,472
Profit after Tax attributable to the Shareholder of the Company		-	-	-	11,830	11,830
Asset revaluation		-	-	-	-	-
Net effective portion of changes in fair value of cashflow hedges		-	-	2,038	-	2,038
Total comprehensive income		-	-	2,038	11,830	13,868
Dividends	9	-	-	-	(6,081)	(6,081)
Total transactions with the Owner in their capacity as owner		-	-	-	(6,081)	(6,081)
Total movement in equity		-	-	2,038	5,749	7,787
BALANCE AS AT 30 SEPTEMBER 2013	10	21,000	62,008	(759)	95,010	177,259

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2014

	Notes	2014 \$000	2013 \$000
EQUITY			
Share Capital	10	21,000	21,000
Reserves	10	61,144	61,249
Retained Earnings		101,450	95,010
		183,594	177,259
NON-CURRENT LIABILITIES			
Loan - Westpac Banking Corporation	21	62,500	60,000
Deferred Tax Liability	7	17,742	17,443
Derivative Financial Instruments	21	793	759
Provisions for Employee Entitlements	13	322	311
		81,357	78,513
CURRENT LIABILITIES			
Cash and Cash Equivalents	18,21	253	105
Taxation Payable		1,550	1,753
Derivative Financial Instruments	21	650	984
Trade and Other Payables	12	7,663	5,233
		10,116	8,075
		275,067	263,847
NON-CURRENT ASSETS			
Property, Plant and Equipment	15	260,024	248,938
Intangible Assets	14	911	276
Derivative Financial Instruments	21	222	578
Investment in Equity Accounted Investees	17	79	–
Investment Properties	16	7,190	6,660
		268,426	256,452
CURRENT ASSETS			
Cash and Cash Equivalents	18,21	1	1
Trade and Other Receivables	11	6,473	7,099
Inventories		167	295
		6,641	7,395
		275,067	263,847

On behalf of the Board of Directors, who authorised the issue of these Financial Statements on 17 November 2014.


JIM SCOTLAND
 Chairman


JON NICHOLS
 Director

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Notes	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Customers		68,909	61,981
Interest Received		–	–
		68,909	61,981
Cash was applied to:			
Payments to Suppliers and Employees		(36,506)	(37,051)
Interest Paid		(3,829)	(3,189)
GST Paid (Net)		(251)	(33)
Taxes Paid		(4,945)	(3,615)
		(45,531)	(43,888)
Net Cash Flows from Operating Activities		23,378	18,093
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of Assets		215	–
		215	–
Cash was applied to:			
Investment in Associate		(79)	–
Purchase of Assets		(19,169)	(20,886)
		(19,248)	(20,886)
Net Cash Flows Used in Investing Activities		(19,033)	(20,886)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from Loan		2,500	9,000
Cash was applied to:			
Repayment of Loans		–	–
Dividends Paid		(6,993)	(6,081)
		(6,993)	(6,081)
Net Cash Flows Used in Financing Activities		(4,493)	2,919
Total Movements in Cash Balances		(148)	126
Cash and Cash Equivalents at Beginning of year			
Cash Balances		1	1
Bank Balance		(105)	(230)
		(104)	(229)
Cash and Cash Equivalents at End of Year			
Cash Balances		1	1
Bank Balance		(253)	(105)
	18	(252)	(104)

The accompanying notes form an integral part of these financial statements.

RECONCILIATION OF SURPLUS

AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES
FOR THE YEAR ENDED 30 SEPTEMBER 2014

	2014 \$000	2013 \$000
RECONCILIATION OF SURPLUS AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus after Taxation	13,433	11,830
Add non-cash items:		
Fair Value (Gains)/Losses	(579)	(1,278)
Depreciation and Amortisation	7,185	7,267
Deferred Tax	299	754
	6,905	6,743
(Deduct)/Add Other Adjustments:		
Net (Profit)/Loss on Sale of Property, Plant and Equipment	46	–
Increase in Non-Current Provisions	11	22
	57	22
Movements in Working Capital:		
Increase/(Decrease) in Accounts Payable	2,228	258
Decrease/(Increase) in Receivables	627	(796)
Decrease in Inventories	128	36
	2,983	(502)
Net Cash Inflow from Operating Activities	23,378	18,093

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2014

1. REPORTING ENTITY

Port of Napier Limited (“the Company” or “the Port”) was incorporated in accordance with the Port Companies Act 1988 and is domiciled in New Zealand.

Port of Napier Limited is involved in providing and managing port services and cargo handling facilities.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for sea defences, investment properties and derivative financial instruments, which are measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand Dollars (NZD) and all values are rounded to the nearest thousand dollars (\$'000).

USE OF JUDGMENTS AND ESTIMATES

In the application of NZ IFRS management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have a significant effect on the amount recognised in the financial statements are as follows:

- Valuation of sea defences (Note 15)
- Valuation of investment property (Note 16)
- Valuation of financial instruments (Note 21)
- Provisions (Note 13)
- Estimation of useful lives (policy on depreciation)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

PROPERTY, PLANT AND EQUIPMENT

Sea Defences are measured at fair value, based on periodic valuations by suitably qualified and experienced professionals. Revaluations are performed with sufficient regularity to ensure that the carrying value does not differ materially from its fair value. Differences between the valuations and the preceding carrying values are taken to the revaluation reserve. If the net balance of a revaluation reserve was to become a debit this would be charged to the income statement.

All other assets are accounted for at the historical cost of property, plant and equipment less accumulated depreciation. This is the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Company includes the cost of all materials used in construction, associated borrowing costs, direct labour on the project and an appropriate amount of directly attributable costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

The Company has eleven classes of property, plant and equipment:

- Port Land
- Vehicles, Plant & Equipment
- Hard Dredging
- Soft Dredging
- Site Improvements
- Wharves & Jetties
- Other Buildings
- Cranes
- Tugs
- Cargo & Administration Buildings
- Sea Defences

SUBSEQUENT COSTS

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company. All other costs are recognised in the income statement as an expense as incurred.

DEPRECIATION

Depreciation is provided on a straight line basis on all tangible property, plant and equipment other than freehold land and hard dredging, at rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives.

Major useful lives are:	Years
Site Improvements	10-40
Wharves & Jetties	10-80
Vehicles, Plant & Equipment	3-25
Cargo & Administration Buildings	10-60
Other Buildings	10-25
Tugs	30
Soft Dredging	8
Cranes	20
Sea Defences	100-200

Land and Hard Dredging are not depreciated as they are considered to have indefinite useful lives.

IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

Impairment losses on revalued assets are taken to the revaluation reserve. If the net balance of a revaluation reserve was to become a debit this would be charged to the income statement.

LEASED ASSETS

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement conveys a right to use the asset.

Company as a lessee: Lease payments made under an operating lease are charged to the income statement on a straight line basis over the period of the lease.

Company as a lessor: Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Lease revenue received under an operating lease is recognised in the income statement on a straight line basis over the period of the lease.

INVESTMENT PROPERTIES

Investment properties comprise industrial land owned by the Company, which are not used in the provision of port or cargo handling services. The properties are valued at fair value without any deduction for transaction costs that may be incurred on sale or other disposal and are re-valued annually by an independent registered valuer. Depreciation is not charged on the buildings. Any gain or loss arising from a change in the fair value of the investment properties is recognised in the income statement.

INVESTMENT IN JOINT VENTURE

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company accounts for its joint venture interest in the financial statements using the equity method which requires the initial investment to be recognised at cost and adjusted thereafter for the post acquisition change in the Company's share of the net assets of the investee. The profit or loss of the Company includes its share of the profit or loss of the investee.

INTANGIBLE ASSETS

Computer Software

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and it is probable they will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Major useful lives are:	Years
Computer Software	3-10

RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, after providing against debts where collection is no longer probable. Bad debts are written off when identified.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. The cost of maintenance spares is determined on a weighted average basis. The carrying amount of inventory includes an appropriate allowance for obsolescence and deterioration.

PAYABLES

Payables are initially recorded at fair value and subsequently at amortised cost. However, due to their short term nature they are not discounted. The balance represents liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid.

EMPLOYEE ENTITLEMENTS

Employee entitlements consist of salaries, wages and performance payments, annual leave, long service leave and other benefits. Liabilities for wages, salaries and performance payments, including annual leave, expected to be settled within 12 months of the reporting date are recognised in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

The Board of Directors have approved the establishment of a performance incentive scheme for staff. The purpose of this scheme is to create additional shareholder wealth by focusing all staff on safety, business growth and improved target earnings. Payments are only made if the Board of Directors' approved non-financial and EBIT targets are achieved.

The liability for long service leave is recognised and measured at the present value of the expected future entitlements to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

TERM DEBT

On initial recognition all borrowings are recognised at the fair value of consideration received less

directly attributed transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of the loan facility are amortised over the term of the loan.

INCOME TAX AND OTHER TAXES

The income tax expense charged to the income statement includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or payable to the IRD based on the taxable income for the current period. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets or liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

OTHER TAXES

Revenue, expenses, assets and liabilities are recognised net of the amount of GST, except receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the IRD.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

CASH FLOW STATEMENT

The following definitions have been used for the preparation of the cash flow statement:

- Cash means cash on deposit with banks, on call borrowing and bank overdraft;
- Investing activities comprise the purchase and sale of property, plant and equipment, investment properties and investments;
- Financing activities comprise the change in equity and debt capital structure of the Company and the payment of dividends; and
- Operating activities include all transactions and events that are not investing or financing activities.

REVENUE

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental revenue is accounted for on a straight line basis over the period of the lease term.

PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required. Provisions are measured at the present value or management's best estimate of the amount required to settle the obligation.

DIVIDENDS

Provision is made for dividends only where they have been approved by the Board of Directors, but are unpaid at balance date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Where the Company determines it will hedge a transaction the Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Company also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity through the hedging reserve. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecasted transaction occurs. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

Certain derivative instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the income statement.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of transaction. At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these are included in the income statement.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including foreign currency risk, liquidity risk, credit risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

The Company enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant, and equipment and when payment is denominated in foreign currency.

Interest rate swaps are entered into to manage interest rate exposure.

The Company has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security is not required for financial instruments subject to credit risk.

Refer also to Note 21 *Financial Instruments*.

NEW STANDARDS ADOPTED AND PRONOUNCEMENTS NOT YET ADOPTED

The Company has applied the following new, revised or amended accounting standards for the year beginning 1 October 2013:

- NZ IFRS 13 Fair Value Measurement
- NZ IFRS 11 Joint Arrangements
- NZ IFRS 12 Disclosure of Interests in Other Entities

The application of these accounting standards has had no material effect on the financial statements.

The Company has not elected to early adopt any new standards or interpretations that are issued but not yet effective and no amendments or revisions to NZ IFRS have had a material impact on these financial statements.

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not effective until after 1 October 2014. None of these are expected to have any significant effect on the financial statements of the Company other than by way of additional disclosure, they include:

- NZ IFRS 9 Financial Instruments will supersede in part NZ IAS 39 and specifies how an entity should classify and measure financial assets. The standard is effective for the year ended 30 September 2016. The Company has not yet determined the potential impact of this standard.

CHANGES IN ACCOUNTING POLICIES

All policies have been applied on a consistent basis with the previous year.

	2014 \$000	2013 \$000
4. REVENUE		
Port Operations	66,996	62,081
Property Operations	16	16
Operating Income	67,016	62,097
5. OTHER EXPENSES		
ITEMS INCLUDED WITHIN OTHER OPERATING EXPENSES		
Auditor Remuneration - Audit Fees	104	113
Auditor Remuneration - Non-Audit Services	6	–
Directors' Fees	304	272
Operating Leases	219	175
Bad Debts	–	–
Fair Value (Gain)/Loss on Investment Property	(503)	(375)
Net (Profit)/Loss on Sale of Property, Plant and Equipment	46	–
6. FINANCIAL INCOME AND EXPENSES		
Interest Income	(5)	(1)
Finance Income	(5)	(1)
Interest Expense on Borrowings	3,705	3,511
	3,705	3,511
Fair Value (Gain)/Loss on Interest Rate Swaps	(91)	(110)
Finance Expenses	3,614	3,401
Net Finance Costs	3,609	3,400
7. TAXATION		
Income Tax on the Surplus for the Year at 28.0 cents (2013: 28.0 cents)	5,173	4,567
Adjustment to Prior Year Taxation	(3)	3
Taxation Effect of Non-deductible Items	(128)	(89)
Income Tax Expense	5,042	4,481
The Taxation charge is represented by:		
Current Taxation	4,700	4,487
Deferred Taxation	342	(6)
Income Tax Expense Reported in the Income Statement	5,042	4,481

	2014 \$000	2013 \$000
DEFERRED TAX LIABILITY		
Balance 1 October	(17,443)	(16,689)
Adjustment Prior Year Provision	2	32
Deferred Portion of Current Year Tax Expense	(342)	6
Amounts Charged or Credited Direct to Equity	41	(792)
Balance 30 September	(17,742)	(17,443)
Deferred Taxation is represented by:		
Property, Plant & Equipment	(9,045)	(8,342)
Fair Value Gains/(Losses) on Derivatives	336	295
Revaluation of Sea Defences	(9,652)	(9,978)
Other	619	582
	(17,742)	(17,443)
IMPUTATION CREDIT ACCOUNT		
Balance 30 September	19,035	16,715
8. OPERATING LEASES		
Leases as a lessee		
At balance date the Company had the following Operating Lease Commitments		
Payable within one year	115	144
Between one and two years	78	113
Between two and five years	–	80
Over five years	–	–
	193	337
9. DIVIDENDS		
2014 Interim Dividend Paid - 17.94 cents per share (2013: 14.63 cps)	3,767	3,072
2013 Final Dividend Paid - 15.36 cents per share (2012: 14.33 cps)	3,226	3,009
	6,993	6,081
10. CAPITAL AND RESERVES		
SHARE CAPITAL		
Issued and Paid Up		
21,000,000 ordinary shares (2013: 21,000,000 shares)	21,000	21,000
All Ordinary Shares have equal voting rights and share equally in dividends and surplus on winding up.		
HEDGE RESERVE		
The hedge reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments, related to hedged transactions that have not yet occurred.	(864)	(759)
REVALUATION RESERVE		
The revaluation reserve relates to the revaluation of the Port sea defences.	62,008	62,008

	2014 \$000	2013 \$000
11. TRADE AND OTHER RECEIVABLES		
Trade Receivables	5,057	5,676
Accruals and Prepayments	1,416	1,423
	6,473	7,099
The ageing of trade receivables at reporting dates is set out below:		
Not past due	4,386	4,884
Past due 0 - 30 days	544	453
Past due 30 - 60 days	80	133
Past due > 60 days	47	206
	5,057	5,676

The Receivables carrying value is equivalent to the current fair value given their short term nature.

No receivables past due are considered impaired.

12. TRADE AND OTHER PAYABLES

Trade Accounts	1,884	1,458
Trade Accruals	3,150	1,246
Employee Entitlement Accruals	2,629	2,529
	7,663	5,233

The Accounts Payable carrying value is equivalent to the current fair value.

Employee Entitlement Accruals also include staff performance incentive payments due.

13. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Non-Current		
Provision for Employee Entitlements	322	311
	322	311
Provision for Non-Current Employee Entitlements		
Balance at beginning of year:	311	289
Additional provision made	30	69
Amount utilised	(19)	(47)
Balance at end of year:		
Current	-	-
Non-Current	322	311

The provision for employee entitlements relates to employee benefits such as gratuities and long service leave.

The provision is affected by a number of estimates, including the expected length of service of employees, the timing of benefits being taken and also the expected increase in remuneration and inflation effects.

Most of the liability is expected to be incurred over the next 2-3 years.

14. INTANGIBLE ASSETS

	Opening Cost	Additions	Transfer/ Disposals	Closing Cost	Opening Accum Amortisation	Current Year Amortisation	Transfer/ Disposals	Closing Accum Amortisation	Book Value
\$000									
2014									
Computer Software	3,596	843	-	4,439	3,320	208	-	3,528	911
2013									
Computer Software	3,414	182	-	3,596	3,033	287	-	3,320	276

15. PROPERTY, PLANT AND EQUIPMENT

	Opening Cost/ Valuation	Additions	Transfer/ Disposals	Closing Cost/ Valuation	Opening Accum Depreciation	Current Year Depreciation	Transfer/ Disposals	Closing Accum Depreciation	Book Value
\$000									
2014									
Port Land	29,943	-	-	29,943	-	-	-	-	29,943
Sea Defences	76,527	-	-	76,527	326	326	-	652	75,875
Cargo & Admin. Buildings	17,481	20	-	17,501	5,313	710	-	6,023	11,478
Tugs	24,098	-	-	24,098	1,812	396	-	2,208	21,890
Site Improvements	43,630	394	-	44,024	14,461	1,196	-	15,657	28,367
Hard Dredging	4,814	-	-	4,814	-	-	-	-	4,814
Soft Dredging	4,613	-	-	4,613	2,297	460	-	2,757	1,856
Other Buildings	3,579	22	-	3,601	1,726	115	-	1,841	1,760
Wharves & Jetties	42,603	1,040	-	43,643	6,404	552	-	6,956	36,687
Cranes	13,646	11,503	(1,500)	23,649	7,428	1,033	(1,300)	7,161	16,488
Vehicles, Plant & Equipment	32,654	4,202	(315)	36,541	16,141	2,188	(253)	18,076	18,465
Work in Progress	11,258	19,169	(18,026)	12,401	-	-	-	-	12,401
	304,846	36,350	(19,841)	321,355	55,908	6,976	(1,553)	61,331	260,024

2013									
Port Land	29,943	-	-	29,943	-	-	-	-	29,943
Sea Defences	76,527	-	-	76,527	-	326	-	326	76,201
Cargo & Admin. Buildings	12,270	5,211	-	17,481	4,467	846	-	5,313	12,168
Tugs	24,098	-	-	24,098	1,416	396	-	1,812	22,286
Site Improvements	43,105	525	-	43,630	13,256	1,205	-	14,461	29,169
Hard Dredging	4,814	-	-	4,814	-	-	-	-	4,814
Soft Dredging	4,613	-	-	4,613	1,820	477	-	2,297	2,316
Other Buildings	3,537	42	-	3,579	1,609	117	-	1,726	1,853
Wharves & Jetties	42,458	145	-	42,603	5,858	546	-	6,404	36,199
Cranes	13,646	-	-	13,646	6,326	1,102	-	7,428	6,218
Vehicles, Plant & Equipment	28,080	4,574	-	32,654	14,176	1,965	-	16,141	16,513
Work in Progress	1,050	20,977	(10,769)	11,258	-	-	-	-	11,258
	284,141	31,474	(10,769)	304,846	48,928	6,980	-	55,908	248,938

During the year the Company borrowed funds for the acquisition of new Property, Plant and Equipment. Interest incurred during the acquisition period of \$138,000 at rates of 3.65% to 4.65% (2013: Nil)

As at 30 September 2012 the Company chose to revalue the sea defences of the Port. The sea defences are classified as specialised assets and as such were valued on a depreciated replacement cost basis. The value increased by \$72,311,000 and this valuation was undertaken by independent valuer Rob Kilgour (MTech, BE, CPEng, MIPENZ) of AECOM as sub consultant to Darroch Ltd. The significant assumptions applied in the valuation of these assets are:

Replacement unit cost: was calculated taking into account:

- Port of Napier Limited's historic cost data including any recent competitively tendered construction works.
- AECOM valuation data-base.
- An allowance for project on costs for planning, design, contract supervision and commissioning of 10% for seawalls and rock breakwaters and 12% for concrete breakwaters.

Depreciation: the calculated remaining effective lives of assets were reviewed, taking into account:

- Condition, performance and utilisation of the assets.
- Future use of the asset.
- Expected changes in technology.
- The NZ Infrastructure Asset Valuation Guidelines - Version 2.0.

Having considered these points, the Company determined that components of sea defence assets will have an economic life between 100 and 200 years and in accordance with its accounting policy for such assets, they will be depreciated over their economic life. Residual values of between 20% and 50% of replacement cost have been determined based on the nature of the construction of the asset.

The Company created a separate asset class for sea defence assets and will revalue this class on a regular basis. The sea defences asset class would have a historical cost of \$4,216,000 if they had not been revalued.

	2014 \$000	2013 \$000
16. INVESTMENT PROPERTIES		
Land and Building	7,190	6,660
Balance at beginning of year	6,660	6,285
Disposals	–	–
Net Gain from Fair Value Adjustments	530	375
Balance at end of year	7,190	6,660

As at 30 September 2014 the Port's interest in investment properties was valued at \$7,190,000, resulting in a \$530,000 increase over the last 12 months. This valuation was undertaken by Frank Spencer a registered valuer with Logan Stone Limited using the fair value basis under the highest and best use scenario. Mr Spencer is a member of the New Zealand Institute of Valuers.

The following amounts have been recognised in the Income Statement:

Rental Income	20	16
Direct operating expenses arising from investment properties that generate rental income	(18)	(16)

17. INVESTMENT IN JOINT VENTURE

	2014 \$000	2013 \$000
Investment in Joint Venture	79	–
MOVEMENTS IN THE CARRYING VALUE OF JOINT VENTURE		
Opening balance	–	–
New Investment	79	–
Share of Recognised Revenues and Expenditure	–	–
Balance at end of year	79	–

SUMMARISE FINANCIAL INFORMATION OF JOINT VENTURE

Assets	237	–
Liabilities	–	–
Net Assets 100%	237	–
Port of Napier Limited share (33.33%)	79	–
Revenues	–	–
Net Profit after Tax	–	–
Port of Napier Limited share (33.33%)	–	–

On 13 August 2014 Port of Napier Limited acquired a 33.3% shareholding in Longburn Intermodal Freight Hub Limited, with Ports of Auckland Limited 33.3% and Icepak New Zealand Limited holding the remaining 33.3%. Longburn Intermodal Freight Hub Limited has been set up as a joint venture by the parties to develop and operate a facility at Longburn near Palmerston North to provide container storage and logistics solutions. The joint venture agreement provides for development funding, by way of shareholder advances approved by general resolutions.

18. CASH AND CASH EQUIVALENTS

Cash	1	1
Bank Overdraft	(253)	(105)
Reconciled to Cash Flow Statement	(252)	(104)

19. RELATED PARTY TRANSACTIONS

TRANSACTIONS

During the year the Company paid amounts to a related party. The Directors believe these transactions were on normal commercial terms.

Related Party	Nature of Transactions	Value of Transactions	
Hawke's Bay Regional Council	Rates, Levies & Resource Consents	60	8
	Subvention Payment	24	368
	Consultancy Contribution	29	–
	Dividends	6,993	6,081
Hawke's Bay Regional Investment Company	Subvention Payment	109	–

The Company was a wholly owned subsidiary of the Hawke's Bay Regional Council up until 27 June 2012 at which time it became a wholly owned subsidiary of the Hawke's Bay Regional Investment Company Limited. The amounts owing to the related party are paid in accordance with the Company's normal commercial terms of trade. No related party debts have been written off or forgiven during the year.

Certain Directors of the Company are also Directors of other companies with whom the Company transacts. All such transactions are on normal commercial terms.

KEY MANAGEMENT COMPENSATION

Compensation of the Directors and executives, being the key management personnel is as follows:

Short term employee benefits	1,955	2,129
	1,955	2,129

20. CAPITAL EXPENDITURE COMMITMENTS & CONTINGENCIES

Capital Expenditure Commitments:

At balance date there were commitments in respect of contracts for capital expenditure including plant, paving, dredging and building totalling \$15,733,000 (2013: \$8,609,000).

Contingent Liabilities:

There were no material contingent liabilities at balance date (2013: Nil).

21. FINANCIAL INSTRUMENTS

CREDIT RISK

In the normal course of its business the Company incurs credit risk from accounts receivable, bank balances and interest rate swap agreements. There is no significant concentration of credit risk and the Company has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers. Counterparties to cash and derivative financial assets are major banks, approved by the Directors. The Company's maximum credit risk exposure are as disclosed elsewhere in the statement of financial position and there is no collateral held.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash and borrowing facilities available to meet its liabilities when due, under both normal and adverse conditions. The Company's cash flow requirements and the utilisation of borrowing facilities are continuously monitored.

The following table sets out the contractual cash flows for all financial liabilities:

Contractual Maturity Analysis

	Carrying Amount	Cash Flows to Maturity	Less than 1 Year	1 - 2 Years	2 - 5 Years	More than 5 Years
	\$000	\$000	\$000	\$000	\$000	\$000
2014						
Trade and other payables	1,884	1,884	1,884	–	–	–
Bank borrowings	62,500	68,680	2,906	5,309	60,465	–
Interest rate swaps	1,308	1,454	575	294	504	81
Forward exchange contracts	(86)	2,922	2,922	–	–	–
	65,606	74,940	8,287	5,603	60,969	81
2013						
Trade and other payables	1,458	1,458	1,458	–	–	–
Bank borrowings	60,000	62,250	2,250	60,000	–	–
Interest rate swaps	1,131	1,053	965	465	(42)	(335)
Forward exchange contracts	34	2,746	2,746	–	–	–
	62,623	67,507	7,419	60,465	(42)	(335)

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

INTEREST RATE RISK

The Company from time to time utilises interest rate caps and swaps to manage interest rate exposures for future periods. As at 30 September the notional principal amounts (including forward starting swaps), and the expiry period of the contracts, are as follows:

	2014 \$000	2013 \$000
Less than 1 Year	10,000	5,500
1 - 2 Years	–	10,000
2 - 3 Years	6,000	–
Greater than 3 Years	68,500	52,500
	84,500	68,000

Interest rate swaps are recognised in the statement of financial position at their fair value, which includes any accrued interest at that date. The effective portion of the changes in the fair value of an interest rate swap is initially recognised in the hedging reserve, and subsequently transferred to the income statement at the point at which time the swap is settled. Any ineffective portion of an interest rate swap is recognised immediately in the income statement.

INTEREST RATE SENSITIVITY ANALYSIS

At reporting date, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would increase/(decrease) post tax profit or loss and other comprehensive income by the amounts shown below.

Interest Rate	Profit or Loss		Other Comprehensive Income	
	100bp Increase \$000	100bp Decrease \$000	100bp Increase \$000	100bp Decrease \$000
Interest Rate Swaps	12	(12)	2,516	(2,699)
30 September 2014	12	(12)	2,516	(2,699)
Interest Rate Swaps	61	(62)	1,991	(2,135)
30 September 2013	61	(62)	1,991	(2,135)

CURRENCY RISK

The Company undertakes transactions denominated in foreign currencies from time to time and exposure in foreign currencies arise resulting from these activities. It is the Company's policy to hedge foreign currency risks as they arise. The Company uses forward and spot foreign exchange contracts to manage their exposures.

Foreign exchange contracts are recognised in the statement of financial position at their fair value. The effective portion of the changes in the fair value of foreign exchange contracts is initially recognised in the hedging reserve, and subsequently transferred to the income statement at the point at which the purchase and associated creditor are recorded. Any ineffective portion of foreign exchange contracts is recognised immediately in the income statement.

The summary of foreign exchange instruments outstanding at balance date and the contracted terms are as follows:

Foreign Exchange Contracts Maturity Analysis

	NZD Amount	Currency Amount 1 Year	Less than	1 - 2 Years	2 - 5 Years
	\$000	\$000	\$000	\$000	\$000
2014					
EUR	–	–	–	–	–
CAD	554	486	486	–	–
AUD	2,368	2,182	2,182	–	–
	2,922				
2013					
EUR	1,839	1,112	1,112	–	–
CAD	–	–	–	–	–
AUD	907	794	794	–	–
	2,746				

Foreign Exchange Sensitivity Analysis

At reporting date, a 10% strengthening or weakening of the New Zealand dollar against the CAD and AUD with all other variables held constant, would increase/(decrease) other comprehensive income by the amounts shown below. There would be no material changes to profit and loss values.

	Profit or Loss 10% NZD 10% NZD Increase Decrease \$000 \$000		Other Comprehensive Income 10% NZD 10% NZD Increase Decrease \$000 \$000	
30 September 2014	–	–	(272)	333
30 September 2013	–	–	(246)	301

	2014 \$000	2013 \$000
CREDIT FACILITIES		
At balance date the Company had total bank facilities of:		
Overdraft	1,000	1,000
Multi option credit facilities	110,000	80,000
Total	111,000	81,000
At balance date the Company usage of the bank facilities was:		
Overdraft	253	105
Multi option credit facilities	62,500	60,000
Total	62,753	60,105

The Company has two multi option credit facilities with Westpac, one for \$50 million expiring December 2015 and the other for \$60 million expiring December 2016. The facility gives the Company the option to raise money on the money market, through wholesale advances or a fixed rate advance for all or any part of the commitment expiring on a date no later than the termination date. Security is by way of a negative pledge over the assets of the Company in respect of both sale of such assets and other security interests.

FINANCIAL ASSETS AND LIABILITIES

Financial Assets

Financial Assets at Fair Value - Cash Flow Hedges

Interest Rate Swaps	222	578
Forward Foreign Exchange Contracts	–	–
	222	578
Loans and Receivables		
Cash	1	1
Receivables	5,057	5,676
	5,058	5,677
Total Financial Assets	5,280	6,255

Financial Liabilities

Financial Liabilities at Fair Value - Cash Flow Hedges

Interest Rate Swaps	1,530	1,709
Forward Foreign Exchange Contracts	(86)	34
	1,444	1,743
Financial Liabilities at Amortised Cost		
Overdraft	253	105
Trade payables	1,884	1,458
Loan	62,500	60,000
	64,637	61,563
Total Financial Liabilities	66,081	63,306

The fair value of all derivatives are based on indicative market valuations provided by the Company's bankers.

The carrying value of all financial assets and liabilities is equal to the fair value.

ESTIMATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

All financial instruments recognised on the Company's statement of financial position at fair value sit within Level 2.

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base, which the Company defines as total shareholders equity, so as to maintain shareholder and banker confidence, and to sustain the future business development of the Company. The Company has established policies in capital management, including the specific requirements that interest cover is to be maintained at a minimum of three times, that the debt to debt plus equity ratio is to be maintained within a range of 20% to 40% and total committed funding to maximum debt over the next 12 months should not fall below a minimum of 110 percent.

The Company is required to comply with certain financial covenants in respect of external borrowings namely that interest cover is to be maintained at a minimum of three times, shareholders funds as a percentage of total tangible assets must exceed 45% at all times and debt must not exceed 3.5 times Earnings before interest, tax, depreciation and amortisation (EBITDA). The Company has met all the covenants throughout the current reporting period.

22. EVENTS SUBSEQUENT TO BALANCE DATE

2014

Nil

2013

The two mobile harbour cranes ordered in 2012 were delivered to Napier Port in September 2013. At September 2013 the cranes were still being commissioned and progress payments of \$9,277,975 were recorded in Note 15 *Property, Plant and Equipment*, "Work in Progress". The cranes' Work in Progress balance was transferred to the 'Cranes' category of Property, Plant and Equipment when they went into service in December 2013.

AUDITOR'S REPORT

TO THE READERS OF PORT OF NAPIER LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2014

The Auditor-General is the auditor of Port of Napier Limited (the "Company"). The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Company on her behalf.

We have audited the financial statements of the company on pages 42 to 62, that comprise the statement of financial position as at 30 September 2014, the income statement, 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.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements of the company on pages 42 to 62:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company's:
 - financial position as at 30 September 2014; and
 - financial performance and cash flows for the year ended on that date.

OPINION ON OTHER LEGAL REQUIREMENTS

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 17 November 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company's financial position, financial performance and cash flows.

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

The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Port Companies Act 1988.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19 of the Port Companies Act 1988.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out an assignment in the area of presenting a risk management workshop, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the company.



STUART MUTCH

Ernst & Young

On behalf of the Auditor-General
Wellington, New Zealand

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AUDITORS

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on behalf of the Auditor-General

BETTER PEOPLE  BETTER ANSWERS

