



**NAPIER<sup>o</sup>**  
**PORT**

ANNUAL REPORT 2016

**NOW  
FOR THE  
FUTURE**

With our eye firmly on the horizon, Napier Port is readying for the future. And with increasing imports and exports, an expanding population and growing tourism, the future looks bright. What we are doing now means all of central New Zealand will be ready for what is next.

## CONTENTS

02	CHAIRMAN AND CEO OVERVIEW	22	BETTER ANSWERS	39	STATEMENT OF COMPREHENSIVE INCOME
04	YEAR'S HIGHLIGHTS	24	WINSTONE PULP INTERNATIONAL	40	STATEMENT OF CHANGES IN EQUITY
06	GROWING HAWKE'S BAY BUSINESS	26	HEALTH AND SAFETY	42	STATEMENT OF FINANCIAL POSITION
10	NOW FOR THE FUTURE	28	COMMUNITY	44	STATEMENT OF CASH FLOWS
12	BUILDING OUR FUTURE	30	ENVIRONMENT	46	RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES
14	NAPIER PINE	32	SENIOR MANAGEMENT TEAM	47	NOTES TO THE FINANCIAL STATEMENTS
16	FINANCIAL PERFORMANCE	33	BOARD OF DIRECTORS	67	FIVE-YEAR FINANCIAL SUMMARY
17	OPERATIONAL PERFORMANCE	34	CORPORATE GOVERNANCE STATEMENT	68	INDEPENDENT AUDITOR'S REPORT
18	BIG SAVE FURNITURE	36	DIRECTORS' REPORT		
20	BETTER PEOPLE	38	INCOME STATEMENT		

# CHAIRMAN AND CEO OVERVIEW



Alasdair MacLeod, Chairman  
and Garth Cowie, Chief executive

Central New Zealand is poised for growth. And as the gateway to world markets, Napier Port plays an integral role in realising the opportunities ahead of our region.

We are proud supporters of Hawke's Bay business, and have been at the heart of our regional economy for more than a century. This year, we handled a record number of containers, berthed more than 100 log vessels for the first time, and saw apple exports hit a new high.

Napier Port has experienced year-on-year container growth for almost two decades and this is forecast to continue, with the rate of growth accelerating over the next five years. Log volumes are expected to more than double as the forestry estate matures. Hawke's Bay's reputation as a tourist destination is growing, and we continue to see increased demand from the cruise sector. The local apple industry has planted new varieties and millions of new trees over the last three years, and water exports are coming on-stream.

It is vital that Napier Port is able to handle this expanding cargo volume efficiently and effectively. To maximise our capacity within our existing footprint, we have invested more than \$95 million in people, plant and technology over the past five years. Now, it's time to take bold steps toward the future.

This year, we announced plans to seek consent for a new wharf and to deepen the shipping channel. Positioned along the northern edge of our container terminal, the wharf would be long enough to handle the larger vessels beginning to ply New Zealand trades, and to ensure we can handle more than one large container ship at a time. This facility will also enable us to handle two large cruise ships simultaneously, boosting our tourism sector and injecting millions into our local economy.

Napier Port is a small cog in an ever-changing global industry and this year, we saw draft, beam and length overall (LOA) records broken as the international trend toward larger vessels continues. We compete on the world stage in attracting and retaining shipping services, and having the right infrastructure in place is critical.

Balancing the needs of the international shipping industry along with the needs of local importers and exporters and our community is key to the future success of both Napier Port and the region we serve. In consulting on our proposal to construct an additional wharf, we have reached out to all sectors of our community, strengthening relationships with our neighbours and stakeholders, renewing connections with mana whenua and building new relationships with community and recreational groups. We're making a concerted effort to tell our story, to bring our community in, and to articulate our role in the Hawke's Bay economy.

Our focus on connection has also extended to new collaborations with KiwiRail and Ports of Auckland. Reopening the rail line between Wairoa and Napier Port not only provides an efficient and environmentally-friendly solution to moving the East Coast log harvest, but restores a strategic transport link to our region. Collaboration with Ports of Auckland will enable us to optimise services for freight customers and achieve further scale and efficiencies in the supply chain. Through collaboration and partnerships, we can deliver better answers for our shippers and for the wider Hawke's Bay region.

It has been a watershed year for workplace health and safety, and Napier Port has new obligations to meet under the Health and Safety at Work Act. Safety is foremost in all we do, and this year we brought contractors, tenants, key customers and operational partners together to form the new Napier Port Safety Council, with a mission of making Napier the safest port in New Zealand.

Significant additional safety training and development across the company has also been a key feature of the year. We are proud to have achieved a new record of 676 days without a lost time injury, but know that our safety journey is a never-ending one.

Our culture journey continues to generate benefits for engagement, innovation and customer experience. We are also placing greater focus on careers, talent management and leadership development, including providing graduate positions and opportunities for progression.

Thank you to all Napier Port staff, customers, directors and our community for your support over the course of the year. We look forward to continuing to work with you as we build our future and take Hawke's Bay to the world.



Alasdair MacLeod  
Chairman



Garth Cowie  
Chief Executive Officer

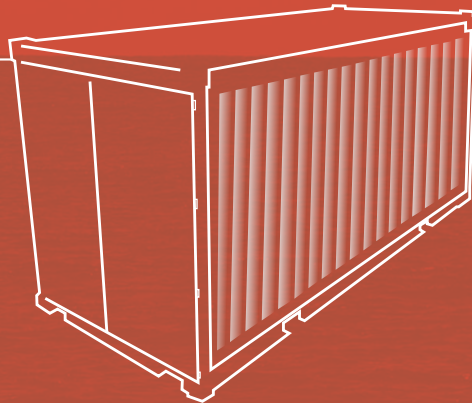
# 100



NEW RECORD FOR  
LOG VESSEL CALLS



**1.207**  
MILLION TONNES  
LOG VOLUME



**257,380** <sup>TEU</sup>  
CONTAINER VOLUMES

**2.025**  
MILLION TONNES  
BULK CARGO



**3.916**  
MILLION TONNES  
TOTAL CARGO VOLUMES



OVER  
100,000 CRUISE  
PASSENGERS  
AND CREW

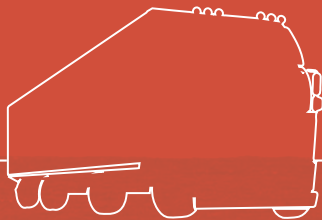
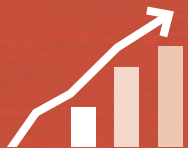
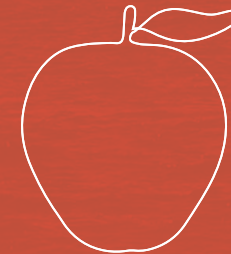
## YEAR'S HIGHLIGHTS

**245**STAFF AT  
30 SEPTEMBER**1200**MEMBERS OF THE COMMUNITY  
ENGAGED WITH REGARDING THE  
PROPOSED WHARF DEVELOPMENT**45**

CRUISE SHIPS

**643**

VESSELS OVERALL

PEAK SEASON AVERAGE  
TRUCK TURNAROUND  
TIME UNDER 15 MINUTES**\$30.4**MILLION  
OPERATING  
PROFIT (EBITDA)**8.5%**INCREASE IN  
APPLE  
EXPORTS



## GROWING HAWKE'S BAY BUSINESS

Napier Port is Central New Zealand's gateway to world markets. With over 27,000 jobs and 51% of Hawke's Bay's Gross Regional Product (GRP) related directly or indirectly to Napier Port, we play a vital role in the regional economy.

**768**

LOCAL JOBS DIRECTLY  
GENERATED BY NAPIER  
PORT ACTIVITY

**14**

INTERNATIONAL  
CONTAINER LINES  
OPERATING THROUGH  
NAPIER PORT

**80%**

OF CARGO COMES  
FROM WITHIN 100KM  
OF NAPIER PORT

**27,048**

JOBS ASSOCIATED WITH  
NAPIER PORT THROUGH  
CRUISE, IMPORTER AND  
EXPORTER ACTIVITY

**38%**

OF REGIONAL JOBS  
ARE DIRECTLY OR  
INDIRECTLY RELATED  
TO NAPIER PORT

**51%**

OF HAWKE'S BAY'S  
GROSS REGIONAL  
PRODUCT IS  
ASSOCIATED WITH  
NAPIER PORT ACTIVITIES

## GREAT THINGS GROW HERE

We're right behind the Great Things Grow Here campaign and are proud members of the Great Things Grow Here Brand Champions Club. Together with representatives from local government and key infrastructure providers, we've gone to Auckland and Wellington to promote the benefits of doing business in Hawke's Bay.

## HAWKE'S BAY: OPEN FOR BUSINESS

We're passionate supporters of Hawke's Bay business, and a proud partner of the Hawke's Bay Business Hub. The first of its kind in New Zealand, the Business Hub is a collaboration of business support services aimed at unleashing the potential of businesses in our region. It marked its first year of operation in June and over that time, has invested in linking local firms through networking and workshop events, improving business outcomes through mentoring, training and leadership development. The Business Hub is also driving business opportunities through its China Market Development programme and partnerships with local government, New Zealand Trade & Enterprise and the NZ Food Innovation Network.



GREAT  
THINGS  
GROW  
HERE

HAWKE'S BAY  
NEW ZEALAND

## GETTING REGIONAL RAIL BACK ON TRACK

With a significant harvest already underway, it is vital that the right transport links are in place to move log exports to market. We've introduced a rail service for log exporters from the Whanganui, Palmerston North and Woodville areas, with trains now running every weekday. An agreement with KiwiRail is set to bring the Napier-Wairoa rail line back into operation late next year. Following upgrades to the track, Napier Port will introduce a dedicated weekend log service from Wairoa. We have added a third rail line to our dedicated rail interchange area on port, along with the additional length derived from the demolition of our old administration building, expanding capacity from 12 log wagons to 24 overall per shunt.

**"We are delighted at the news this is now to become a reality. With significant harvest volumes coming on stream, the rail link will provide both FMNZ as managers and the forest owners with greater options while strengthening links direct to the port."**

STEVE BELL, JOINT CEO,  
FOREST MANAGEMENT NZ LTD



## GROWING HAWKE'S BAY TOURISM

Hawke's Bay's reputation as a tourist destination is growing steadily and Napier Port is a vital gateway. The 2015-2016 season saw 45 cruise ships call at Napier, bringing more than 100,000 passengers and crew into Hawke's Bay and injecting around \$20 million into the local economy. On average, every cruise ship brings an extra 2,000 people into the region, representing a significant boost for local business.

Napier is regularly voted one of the best port experiences in New Zealand by cruise passengers, with Napier Port providing a vintage car display on the wharf, live music from the Twin City Stompers, and free buses to the city centre. With 55 cruise ships scheduled to call over the 2016-2017 season, and larger vessels expected in coming seasons, Napier Port has invested in upgrading and strengthening its primary cruise berth, 2 Wharf North. This programme of investment has seen the purchase of new bollards of 95 tonne capacity, the installation of navigational lead lighting to ensure safe entry into port, and the commissioning of an additional gangway suitable for Ovation class cruise vessels.

## CHAMPIONING THE PRIMARY SECTOR

Hawke's Bay is built on the strength of the primary sector, and Napier Port is a critical link between our local producers and world markets. The Napier Port Hawke's Bay Primary Sector Awards are a chance to celebrate excellence in our primary industries, and to appreciate the integral role the sector plays in Hawke's Bay's economic growth and success. We were proud to support the Awards for a second year, and congratulate the winners, the finalists, and those who took the courageous step of entering the awards.

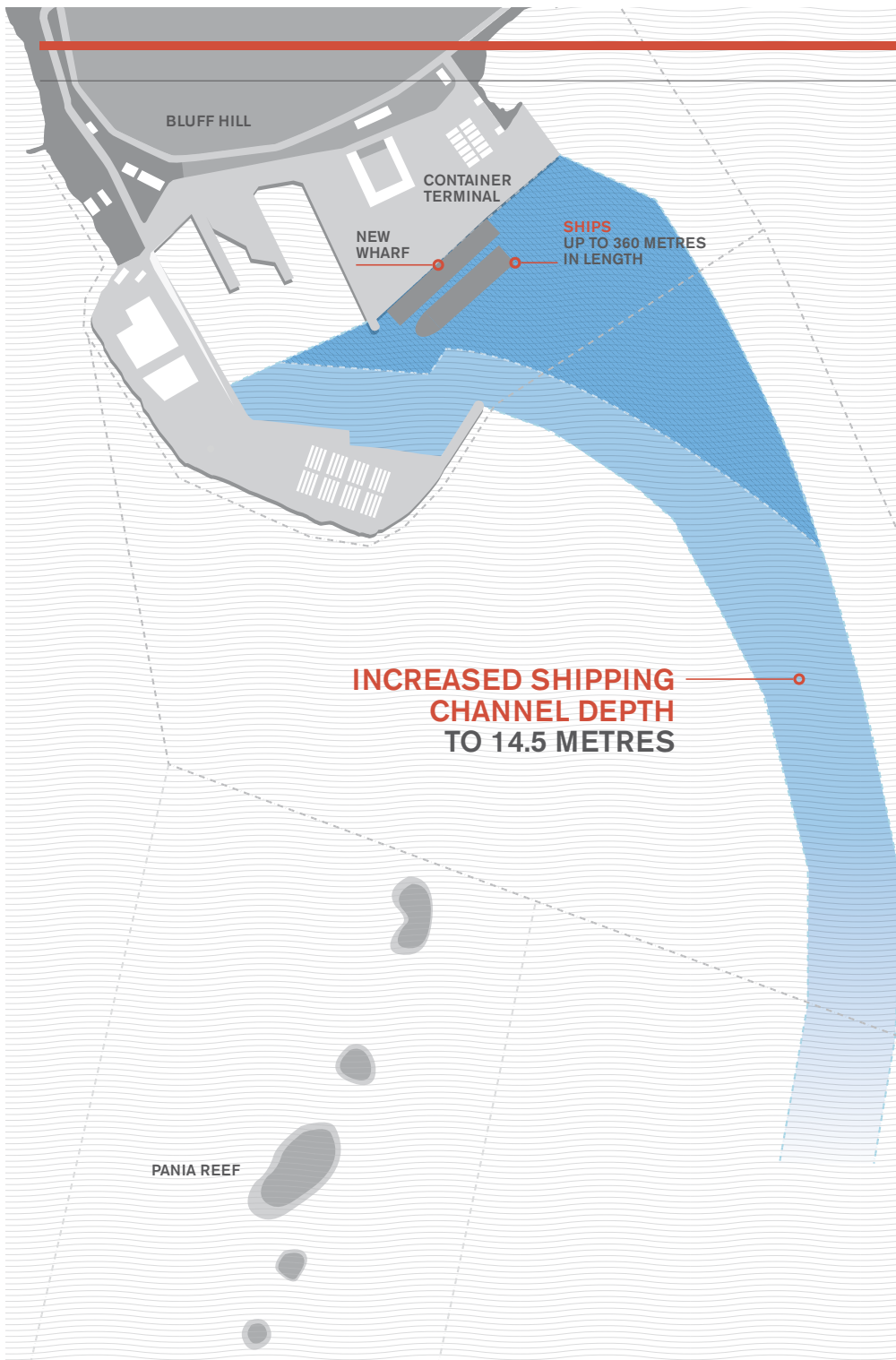
## CELEBRATING INNOVATION IN EXPORT

Hawke's Bay is home to a diverse range of businesses, partnerships and collaborations. The Hawke's Bay Export Awards showcase the inventive spirit of our region and celebrate the very best in local innovation. Napier Port was proud to sponsor the Most Sustainable in Export Award this year, which was taken home by internationally-renowned lighting designer David Trubridge. With a sustainable philosophy at the heart of his business, David and his team export his distinctive designs across the world while treading lightly on the environment.

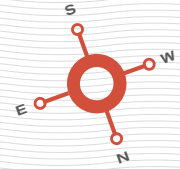
## ENHANCING ROADING LINKS

Improving transport links to the port has been identified by the Government as a key contributor to Hawke's Bay's economic growth and, as part of the Hawke's Bay Regional Economic Development Strategy, it announced a \$25 million package to improve roading links to Napier Port. These include upgrades to the Watchman Road and Hyderabad Road/Prebensen Drive intersections, as well as the Hawke's Bay Expressway.





## NOW FOR THE FUTURE



### FUTURE-PROOFING OUR PORT

The central North Island economy is growing at a rapid pace, and our cargo volumes are projected to grow 49% over the next decade. Shipping lines are commissioning larger and deeper vessels, and Hawke's Bay is becoming an increasingly popular destination for cruise lines.

To ensure Hawke's Bay remains open for business, we need to expand our capacity and build a wharf capable of handling the next generation of vessels. Napier Port has consulted widely with our customers, community and stakeholders on a proposal to build a 350-metre wharf, able to take 360-metre ships, alongside the container terminal and to deepen and extend the shipping channel.

Independent local and international experts have undertaken a range of studies exploring the potential impacts of the project on wave action, marine eco-systems and what our local communities value about the marine environment. The use of innovative new technologies has helped us refine the design to ensure potential impacts are fully addressed. Those technologies include a multi-beam survey of Pania Reef, which has provided the most comprehensive picture of the reef to date. This project has contributed significantly to what we know about our marine ecology and will help the community better manage the environment in future.

The realisation of this project will enable Napier Port to handle the growing volume of food and fibre exports coming out of our region, to handle larger vessels, and to bring thousands of additional tourists into Hawke's Bay every year.

### LISTENING TO OUR COMMUNITY

We are working hard to ensure our customers, stakeholders and the communities around us understand our proposal, and that we hear their views on it. In particular, we have been developing partnerships with local hapu and iwi organisations to ensure culturally significant taonga are considered and protected throughout the development of the project. A programme of consultation started in March, with presentations made to business, local government and community groups across the region, radio and print promotion, and brochures delivered to local communities. Drop-in sessions in Ahuriri, Westshore, and Hastings have seen strong interest, and over the course of our consultation programme we have directly engaged with more than 1,200 people.

## 2026 FORECAST

### 6 million

tonnes cargo

### 2.8 million

tonnes log volume

### 500,000

tonnes wood pulp

### 3.7 million

tonnes bulk cargo

### 360,000 TEU

containers

### 35,000 TEU

of apples

### 60

cruise ship calls

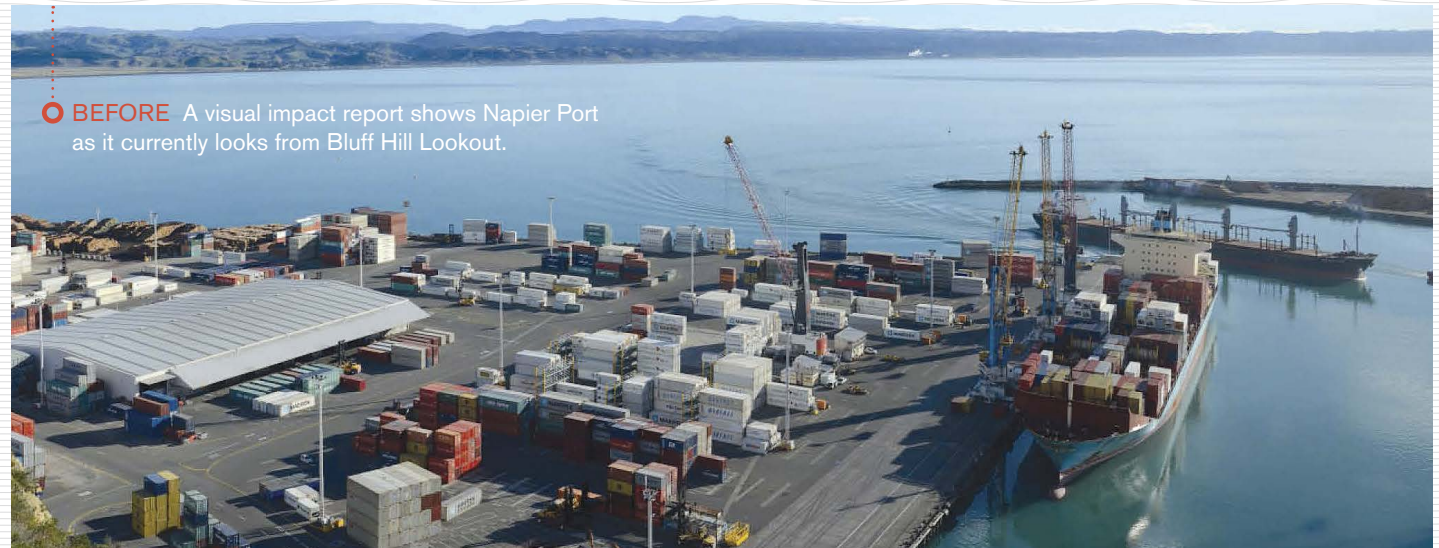
### 49%

growth in cargo

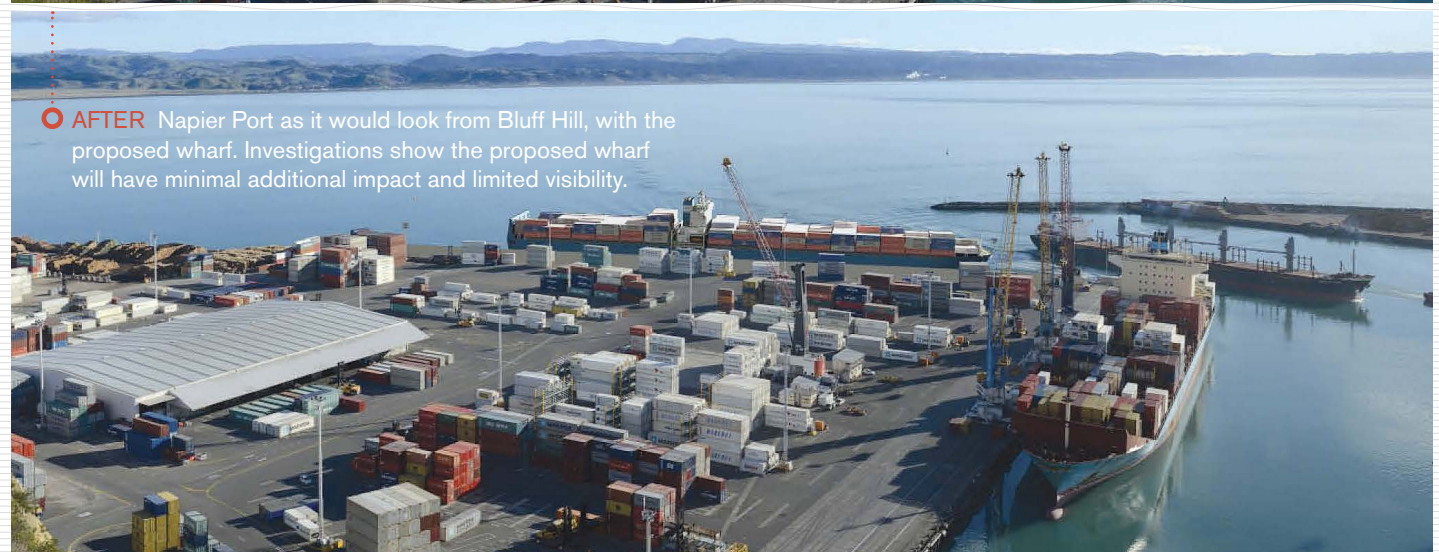
### 52%

Hawke's Bay Gross Regional Product associated with Napier Port

**BEFORE** A visual impact report shows Napier Port as it currently looks from Bluff Hill Lookout.



**AFTER** Napier Port as it would look from Bluff Hill, with the proposed wharf. Investigations show the proposed wharf will have minimal additional impact and limited visibility.



### BOOSTING OUR HOIST FLEET

Napier Port has expanded its container handling capacity with the arrival of three new Terex empty container handlers this year. These machines are quieter, more environmentally-friendly and capable of lifting two containers simultaneously.



# BUILDING OUR FUTURE

## DEVELOPING STRATEGIC PARTNERSHIPS

This year, we announced a strategic alliance with Ports of Auckland which will provide operational, economic, sustainability and community benefits. The partnership will see both ports working together to optimise services for freight customers. Through a stronger market presence, we hope to achieve further efficiencies in the supply chain and lower costs to exporters and importers. The alliance also creates an opportunity to collaborate, innovate, and share best practice in IT, health and safety, and sustainability practices. The alliance builds on our existing joint venture in the Longburn Intermodal Freight Hub and balances Napier Port's strong export base with Auckland's weighting towards imports.

## PREPARING FOR THE WALL OF WOOD

With forests across the region now maturing, the volume of logs coming through Napier Port is expected to more than double by 2020. To cope with this influx, Napier Port has invested in sealing our main log yard and purchasing higher bookends that allow us to stack a greater volume of logs. On-port marshalling companies now have the capability and flexibility to load logs for export across multiple wharves. With improvements to key roading links confirmed and the Napier to Wairoa rail line set to return to operation, we have the capability to transport an increasing volume of logs in a reliable, efficient and environmentally-friendly manner.

## EXPANDING OUR CATCHMENT AREA

Napier Port continues to invest in the Longburn Intermodal Freight Hub in Palmerston North, a joint venture between Napier Port, Ports of Auckland and Halls Group. Strategically positioned in Palmerston North with a direct rail link to Napier Port, the inland port is designed to provide better answers for shippers on the edge of our traditional cargo catchment area. This year, Longburn invested in upgrades to the facilities on-site and will continue to work with importers and exporters in the area.

## INCREASING CAPACITY ON-PORT

Operating within a constrained footprint, it is crucial that we use every inch of space to its maximum capacity. Moving our storage of empty containers offsite to a depot in Pandora, along with the demolition of our former operations and corporate buildings, has freed up space on-port for log storage and transit cargoes, and will provide added capacity during the peak season.

## BUILDING A COLLABORATIVE WORKING ENVIRONMENT

Bringing corporate and operational staff together in a new open plan building has seen spin-off benefits, with the open plan design fostering communication and strengthening a culture of collaboration. Integrated technology ensures our team are working smarter, while shared breakout spaces are building stronger relationships across the port. A new position on the western side of the port has better connected us with our neighbouring communities, and murals painted near the new office as part of the Sea Walls: Murals for Oceans project sets its location apart.

The form and function of the building, along with subtle nods to its industrial heritage, were recognised with a Commercial Architecture Award at the Gisborne-Hawke's Bay Architecture Awards.

## SHORING UP OUR EXISTING INFRASTRUCTURE

This year, Napier Port developed a maintenance and redevelopment programme for our primary container berth, No. 5 Wharf, which will extend the life of the wharf by up to 20 years. The strengthening of the breakwater with concrete akmons continues to provide increased protection from heavy seas and high swells. Capital dredging has achieved a minimum depth of 12.41 metres throughout the shipping channel.

**257,380 TEU**  
CONTAINERS HANDLED



**1.207**  
MILLION TONNES  
LOG VOLUME

PEAK SEASON  
TRUCK  
TURNAROUND  
TIME UNDER  
**15**  
MINUTES



## NAPIER PINE

Napier Pine is in growth mode, recently purchasing a sawmill in Hastings to run alongside their Napier operation. The company mills high grade radiata pine, sourced from carefully managed and renewable forests, and exports it across the world through Napier Port. Their timbers go into a range of products, including furniture, picture frames and interior mouldings.

“Napier Pine is proud to have been part of Hawke’s Bay’s growing economy for the past 20 years. Being able to ship our products to a wide range of destinations all over the world and getting them to our customers on time for their time-sensitive manufacturing have been key to reaching the position we are in today. Undoubtedly, this can only be achieved with the strong and continuous support from Napier Port and its professional staff.

We are looking forward to any improvement of the service for the benefit of both exporters and importers in this region.”

HARRY AND MUKTI - OWNERS AND DIRECTORS, NAPIER PINE



# FINANCIAL PERFORMANCE

**\$11.5**

MILLION  
NET PROFIT

**\$10.3**

MILLION  
INVESTMENTS IN  
INFRASTRUCTURE  
AND EQUIPMENT

**\$72.7**

MILLION  
IN REVENUE

**\$7.9**

MILLION  
IN DIVIDENDS

The operating profit (EBITDA) of \$30.4 million achieved for the year was 2.3% higher than last year's result, although net profit for the year was down 11.3% to \$11.5 million. This reflects a significant increase in depreciation, amortisation and impairment expenses on capital assets during the period. Improved cashflows from operating activities and reduced capital outlays have helped reduce our net debt position to \$79.2 million at the end of the 2016 financial year.

Over the past five years, Napier Port has invested \$95 million in infrastructure and equipment to build operating capacity and ensure we are well-placed to handle growing cargo volumes. Our capital investment for 2016 was \$10.3 million, and included technical studies, design, and consultation ahead of a resource consent application for a new wharf and channel dredging. We also invested in technology to support our operating efficiency, major maintenance for our tug Te Mata, and the renewal of port infrastructure.

Napier Port's revenue remained steady at \$72.7 million this year, a 0.8% increase on the \$72.1 million earned in 2015. This is expected to grow as our cargo base expands and pricing adjusts to reflect investments in increased capacity.

Napier Port paid \$7.9 million in dividends to our sole shareholder, the Hawke's Bay Regional Investment Company, up from \$7.4 million in 2015.



**3.916**

million tonnes cargo handled

**257,380** TEU

containers handled

**22,000+** TEU

record apple exports

**8.5%**

growth in apple volumes

**100**

log vessels handled

**4,149** TEU

new record for monthly Port Pack volume

**46,086** TEU

handled through Port Pack

**0.868**

million tonnes imports

**3.048**

million tonnes exports

## OPERATIONAL PERFORMANCE

### NEW RECORD FOR CONTAINER VOLUMES

A record 257,380 TEU containers crossed Napier Port wharves this year. This follows a record 2015, in which 256,438 TEU were handled. This trend is expected to continue, with growth in horticulture and forestry set to intensify in the coming years. This was achieved despite the continued movement of dairy volumes away from Napier during the year.

### APPLE EXPORTS HIT A NEW HIGH

It has been a bumper year for the apple industry, with export volumes soaring. More than 22,000 TEU containers of apple exports were shipped from Napier Port over the course of the season, an increase of 8.5% on the volume exported in 2015. Export volumes are expected to grow, with a significant programme of planting underway across the region and the industry body setting a target of \$1 billion in New Zealand apple export earnings by 2020.

### GROWTH IN LOG EXPORTS

Log exports rose 8.6% in 2016, with 1.207 million tonnes of raw logs handled. The addition of new exporters saw Napier Port handle a record 100 log vessels for the first time. Volumes are expected to climb sharply in coming years as the Hawke's Bay forestry estate matures.

### BUSY YEAR FOR PORT PACK

Napier Port's on-site packing and devanning facility Port Pack saw its busiest year ever, handling a total of 46,086 TEU over the 12 months, an increase of 29% on 2015 volumes. Much of this growth was driven by decisions from Winstone Pulp International and PanPac to containerise more of their pulp and timber exports during 2015. Together with other valued customers, this has the Port Pack facility operating two shifts a day, six days a week.

### DRAFT, BEAM AND LENGTH RECORDS BROKEN AS SHIPPING LINES INCREASE CAPACITY

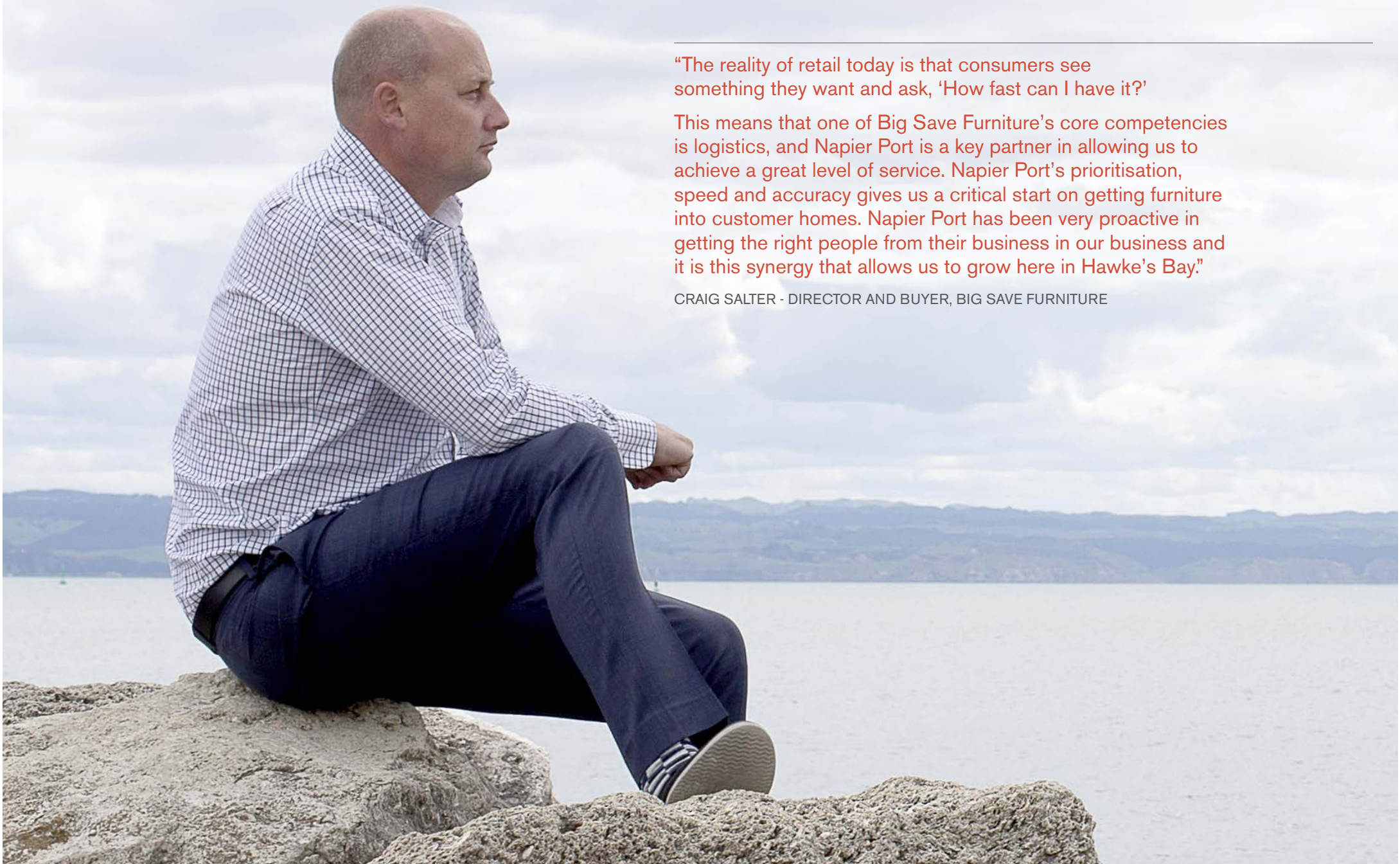
The Maersk Utah became the largest container vessel to be handled at Napier when it called on 19 June 2016. The Utah has the capacity to carry 5,154 TEU, and sailed with a record departure draft of 12.0 metres. Fertiliser vessel the Molly Manx set a new record for arrival draft, with a depth of 12.2 metres. The Stena Provence tanker called twice in 2016, with a beam measuring an impressive 40 metres.

### VEHICLE BOOKING SYSTEM PROVES ITS WORTH

A vehicle booking system implemented in 2015 has proven highly effective, eliminating congestion and bringing the average truck turnaround under 15 minutes in the peak season. Streamlining truck movements has also allowed transport firms to extract more value from their fleet, with trucks able to make a greater number of runs to the port each day.

### SUCCESSFUL IMPLEMENTATION OF VERIFIED GROSS MASS REGULATIONS

Changes to the Safety of Life at Sea (SOLAS) convention saw shippers required to submit the gross mass weight of their export containers before they came through the port gate. Napier Port, along with other New Zealand ports, led a collaborative effort to implement an industry-wide tool for collecting and managing this data, with an online portal developed to enable shippers to log their container weights and a consistent electronic messaging form designed for major exporters. The weight of all export containers coming through the Napier Port gates is now pre-advised, ensuring safer working conditions for port staff and ships' crew.

A man with a shaved head, wearing a light blue and white checkered button-down shirt and dark blue trousers, is sitting on a large, light-colored rock. He is looking out over a body of water towards a hilly coastline under a cloudy sky. The image is the background for the text on the right.

“The reality of retail today is that consumers see something they want and ask, ‘How fast can I have it?’

This means that one of Big Save Furniture’s core competencies is logistics, and Napier Port is a key partner in allowing us to achieve a great level of service. Napier Port’s prioritisation, speed and accuracy gives us a critical start on getting furniture into customer homes. Napier Port has been very proactive in getting the right people from their business in our business and it is this synergy that allows us to grow here in Hawke’s Bay.”

CRAIG SALTER - DIRECTOR AND BUYER, BIG SAVE FURNITURE

## BIG SAVE FURNITURE

Big Save Furniture is a family-operated business with 21 retail stores across the country. They opened their first furniture store in Paraparaumu in 1973, focused on providing exceptional customer service and value for money. They moved their headquarters to Napier in 2007, with Hawke's Bay's central location delivering cost savings and a more agile distribution network. The Big Save customer is looking for great furniture at a great price with quick delivery, and partnerships with Napier Port and local freight firm Conroy Removals are driving a more efficient supply chain.



### 3 SECONDMENTS

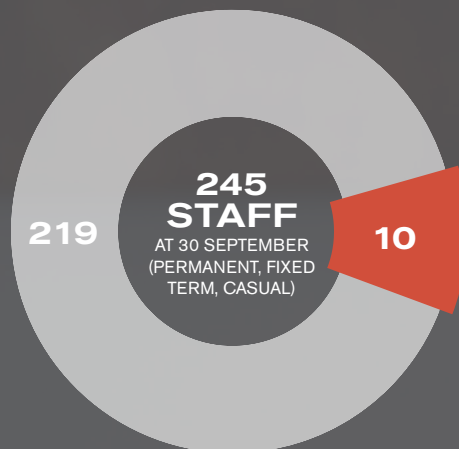
Napier Port values the development of our workforce and encourages promotions and secondments from within the organisation.



**4.8%**  
INCREASE IN  
PERMANENT STAFF

10 NEW PERMANENTS  
OVER THE YEAR

219 PERMANENT STAFF,  
UP FROM 209 IN 2015



Napier Port's new Financial Controller, Bruce Morrin, has moved halfway around the world and now calls Napier home.

## BETTER PEOPLE

At Napier Port, we believe that the key to finding better answers for our customers is having better people on our team. We pride ourselves on a culture of innovation and excellence, and people who go the extra mile.

### DEVELOPING OUR PEOPLE

This year saw a new challenge for long-serving executive Warren Young, who moved from Finance Manager to a new role as Container Operations Manager in June. In this new role, Warren is charged with the strategic direction of Napier Port's container operations. He is joined on the senior management team by Adam Harvey, who was promoted from Operations Manager to Container Terminal Manager.

A number of new operational and support roles were introduced this year, providing additional expertise and capacity for growth across the organisation. A number of our staff also secured promotions or took up secondments over the year.

Our people continue to be recognised as leaders in their field, representing Napier Port on industry bodies including the Ports Industry Association, the International Association of Ports and Harbours, New Zealand Marine Pilots and the board of port infrastructure body PIANC, as well as working groups including the Verified Gross Mass Forum and Navis Users Group.

### SEARCHING FAR AND WIDE FOR THE BEST TALENT

A global search saw Bruce Morrin appointed as Napier Port's new Financial Controller in September. Born and bred in Waikato, Bruce returns to New Zealand after nine years in the United Kingdom. He holds a Bachelor of Management Studies and Diploma of Economics from the University of Waikato and is a member of Chartered Accountants Australia and New Zealand. Bruce brings 13 years of experience in financial roles, including time in the banking sector and with the UK Financial Services Authority. Bruce is pleased to be back in New Zealand and to be part of the Napier Port team.

### LOOKING TO THE FUTURE

We're looking ahead to ensure we have the skills, capability and diversity we need to meet our future challenges. Two graduate terminal planning trainees have been offered permanent terminal planning roles, while several trainee roles are bringing fresh talent into our mooring team. A new focus on communications and telling our story saw two new communications advisors appointed as part of the Culture & Capability team. A partnership with MTG Hawke's Bay brings school students through the port, educating them on careers past and present.

Operations Services  
Co-ordinator, Nic McRobbie, and  
Container Terminal Manager, Adam  
Harvey, are just two examples of the  
great talent at Napier Port.



# BETTER ANSWERS

Napier Port is pushing the boundaries across the port industry, developing and implementing health and safety and productivity innovations. Championed by our own people, Napier Port is sharing many of these innovations to help improve the industry as a whole.

## LIFTING PEOPLE AND PERFORMANCE

In 2015, Napier Port invested in New Zealand's only mobile harbour crane simulator to reduce the time it takes to train our own staff and allow them to be trained in a safe and controlled environment.

The introduction of the crane simulator has led to strong collaboration between Napier Port teams, including Senior Crane Operators, Operations, Commercial, and Culture and Capability, with staff enthusiastic about the opportunity to work on this innovative cross-functional project.

Our on-site operators are also seeing the benefits, with Southern Cross Stevedoring using the simulator to assess candidates being recruited to operate on-deck as hatchmen.

Developing the simulator has also strengthened relationships with other ports across Oceania, including Ports of Auckland and Flinders Port. In September, Napier Port hosted a team of senior managers and crane operators from Fiji Ports for a week-long international training course. A relationship has been forged that will benefit both organisations well into the future.

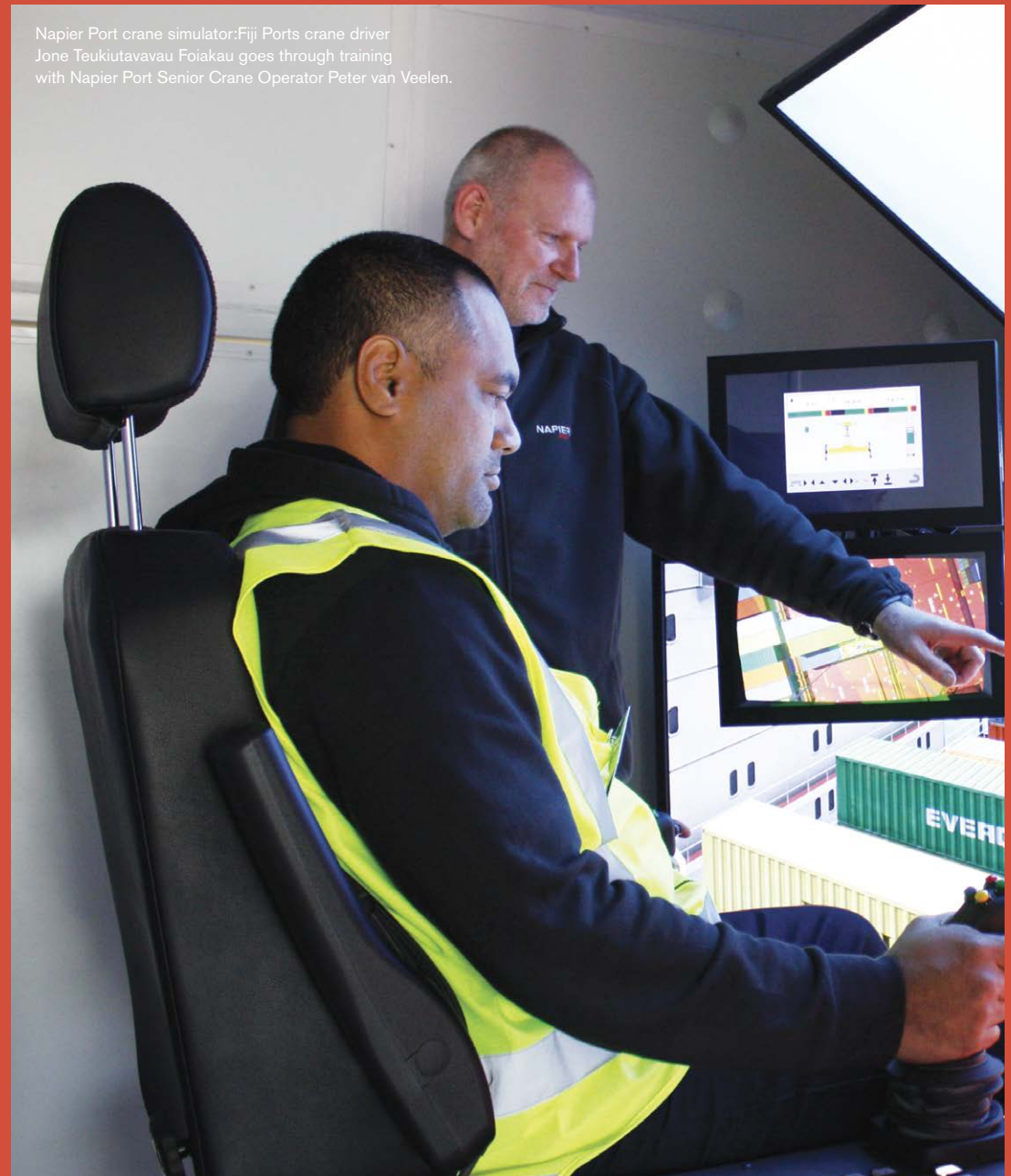
## GENERAL CARGO

General Cargo has continued to take an innovative approach to improving efficiency and providing solutions for our customers.

Pre-packing container inspections are now loaded directly into the system using hand-held tablets, replacing more than 20,000 paper forms a year. Similar technology is also being developed for forklift inspections and other similar tasks, reducing the number of steps in the process and improving efficiency.

Inventory control for JNL timber packs has been improved by providing greater transparency of cargo location and age. We now produce weekly stock reports, allowing us to identify and fix any anomalies prior to ship arrival.

Napier Port crane simulator: Fiji Ports crane driver Jone Teukiutavavau Foiakau goes through training with Napier Port Senior Crane Operator Peter van Veelen.





### WINSTONE PULP INTERNATIONAL


In July, Winstone Pulp International (WPI) agreed to a further three-year extension to operate through Napier Port. An existing customer, WPI decided to test the market. In the face of fierce competition from a number of other ports, Napier Port was successful in retaining their business.

WPI said one of the deciding factors was our people. We had invested in our relationship with WPI over a number of years and our people take care with their product to ensure it reaches its destination on time and in the best condition. Our people go the extra mile to help their business run smoothly.

“Napier Port is a progressive and innovative operation, and we’re always looking at how we can provide better answers for our customers.”

STEVE YOUNG, BUSINESS  
DEVELOPMENT MANAGER, NAPIER PORT





“The relationship with Napier Port stands out among Winstone Pulp suppliers – their cargo care is outstanding and there’s a ‘can do’ attitude that comes across very strongly no matter where you are on the port. Rather than telling us they can’t do something, the Napier Port team ask, ‘What can we do to make this work?’

They truly understand our business – they’ve been to market with us, they’ve seen our supply chain in action, and they’ve met our customers. That understanding goes right down to the operational team handling our product, and that’s something we value very highly.”

PAUL SAUNDERS - GENERAL MANAGER OPERATIONS,  
WINSTONE PULP INTERNATIONAL

## WINSTONE PULP INTERNATIONAL

Winstone Pulp International processes timbers from renewable forest estates across New Zealand, with a focus on quality and sustainability. It operates mills in Karioi and Tangiwai, producing a range of timber products and wood pulp. The high quality wood pulp exported through Napier Port goes into producing a range of goods including food-grade packaging.

# HEALTH AND SAFETY

Napier Port is on a journey to being the safest port environment in New Zealand. We're proud of our safety culture, but know we can never rest. We're always searching for better answers to our health and safety challenges.

## NEW ERA FOR SAFETY LEADERSHIP

This year has been a watershed year for workplace health and safety, with the introduction of the new Health and Safety at Work Act. The new legislative environment brought with it new obligations for complex operations like ports, where multiple companies are running operations on-site, each with their own standards and processes. A shared commitment to safety brought Napier Port management together with stevedoring contractors, those leasing land or equipment on port, key customers and operational partners, and the Napier Port Safety Council was formed in March with a mission to make Napier the safest port in New Zealand.

**“We have new obligations to meet under the Health and Safety at Work Act, but more importantly, we have a moral responsibility to ensure every person entering our port leaves again safely.”**

GARTH COWIE, CEO, NAPIER PORT

Napier Port's internal health and safety system was reviewed and aligned with the new legislative environment, with 17 new Health and Safety Representatives elected and trained. In addition, 106 staff across the port were trained in hazard identification and risk assessment and 44 were trained in incident investigation. A further 44 undertook a Foundations of Safety for Managers course, while 13 were trained in managing critical risk.

## LOST TIME INJURIES

Napier Port recorded two lost time injuries (LTIs) in 2016, resulting in six lost days. Learnings from these have been actioned to ensure a safer working environment and that all staff remain vigilant about safety. Prior to these LTIs, Napier Port achieved a record 676 days without an LTI.

## AN EVOLVING SAFETY JOURNEY

We are continually searching for improvements to our safety measures, and have introduced a number of new safety initiatives across the port this year. The introduction of comprehensive job safety analyses has seen changes in our log rail operation, with a new traffic plan and a shared radio channel now in place.

Flags have been fitted to Napier Port cars operating in the terminal, to boost their visibility between container stacks. We have introduced free wifi for ships' crews to limit movements on the wharf, and introduced load cells to measure true force on shore moorings. All floating plant is now lodged in the Maritime New Zealand Maritime Operator Safety System, and we have installed a new weather system that forecasts and records long wave situations for analysis.

## SAFETY IN ACTION

A new initiative implemented this year sees Napier Port directors and senior managers spending time at the coalface to better understand the hazards and risks in our port environment, engage directly with operational staff, and see the port's health and safety system in action. The programme has been well-received, giving Directors the opportunity to experience Napier Port's safety culture firsthand. Directors are now also attending port and departmental health and safety meetings, and senior managers and directors have attended a Leading for Safety Excellence course.

## SUPPORTING STAFF WELLNESS

Napier Port continued to deliver its comprehensive staff wellness programme, including MoleMap checks, flu shots, and therapeutic massages alongside access to an on-site gym and personal trainer. We also offer staff access to a comprehensive employee assistance programme and an on-site chaplain. Napier Port provides fruit as a healthy eating option and promotes exercise among staff and their families by covering entry fees for sporting competitions and contributing to the cost of uniforms and team subs.

## RECOGNISED LEADER IN HEALTH AND SAFETY

Internationally renowned marine safety expert Ravi Nijer presented Napier Port with a plaque recognising our sustained outstanding commitment to port and pilotage safety. Napier Port has been working with Mr Nijer for many years to deliver safety training to management and operational staff across the port, with ten staff completing the world-class Bridge Resource Management course this year.

**334%**

increase in near miss reporting

**2**

lost time injuries

**676**

new record for days without a lost time injury reached during the year

**17**

new health and safety representatives

**2000+**

health and safety inductions run

**106**

staff trained in hazard identification and risk assessment

**44**

staff trained in incident investigation

**13**

staff trained in managing critical risk

**112**

MoleMap checks

## TRANSFORMING NEAR MISS REPORTING

A collaborative project by Container Operations staff and radio communications provider I-Net has simplified near miss and incident reporting, setting a new industry standard. Recognising that paperwork was a barrier to reporting, the team worked to introduce voice recorded reporting. Two radio channels were introduced - one for damages and the other for near misses and incidents. Following a trial in the container terminal, the project was also rolled out across General Cargo and Port Pack. It has seen phenomenal results, with reporting now able to be done virtually at the time the observation is made. Better reporting has given us a greater insight into risk trends, and enabled us to eliminate and manage hazards more effectively.

The project has been recognised as a leader in the radio communications industry, with I-Net taking home the Project Excellence Award at the recent Radio Frequency Users Association of New Zealand Industry Excellence Awards.

## INNOVATIVE SOLUTIONS

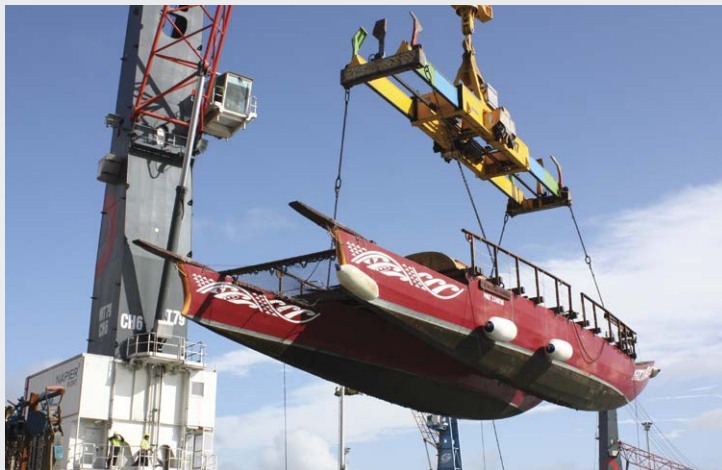
The Port Pack team found an innovative fix for one of their challenges this year, collaborating with local engineering firm KG Tong to resolve the spread of fine airborne particles. After finding it difficult to clean the filter of the warehouse's new industrial sweeper without reintroducing particles to the air, staff and KG Tong developed a purpose-built unit that used compressed air to clean the filter within a contained environment, providing a solution that was better for both staff using the machine and for the environment.

## SAFE HARBOUR

The New Zealand Port and Harbour Marine Safety Code was signed by Napier Port CEO Garth Cowie on 17 August on behalf of all New Zealand port CEOs. The updated code aims to make shipping in commercial harbours safer. New initiatives include creating a governance group of CEOs, jointly funding a secretariat to administer the revised code, and setting up a work programme including safety systems reviews and performance monitoring.

# COMMUNITY

The fortunes of our business are closely tied to those of our region, and we're committed not only to the economic growth and success of Hawke's Bay, but to making a positive contribution to our community and giving back to the people around us. This year, Napier Port has been telling the story of our place in the regional economy like never before, and has seen the benefits of engaging with the community we operate in.



## LIFTING TE MATAU A MAUI

This year, we formalised our long-standing relationship with the Te Matau a Māui Waka Voyaging Trust with a memorandum of understanding. This will see Napier Port providing ongoing financial support for the Trust, as well as practical assistance in lifting the Te Matau a Māui waka out of the water for maintenance every two years. We also helped fund a hoe urungi, or steering paddle, for the waka. The hoe was blessed in a dawn ceremony on July 3 and named Moremore o te Ao Tawhito (Moremore of the Old World) after Moremore, son of Pania and guardian of the harbour. Our team was privileged to be a part of the hoe's maiden journey out to Pania Reef, where members of Ngāti Pārau shared the history of Ahuriri.

## SPLASH 'N' PLAY

Napier Port partnered with Napier City Council to bring an inflatable playground to Pandora Pond for the summer months. Splash 'n' Play was opened in October and has proven a huge hit with children and families.

## DOING OUR BIT IN THE WATER

Napier Port supports a range of water-based activities, including the Hawke's Bay Optimist Yacht Club, the Napier Port Ocean Swim, the Westshore Sea Scouts and the Hawke's Bay Nautical Trust.

## PORT NOISE

Having a thriving port as a neighbour can bring its challenges, and Napier Port works hard to engage with residents.

Napier Port operates within strict noise limits, as stipulated in the City of Napier District Plan. These limits are consistent with New Zealand Standard NZS 6809: 1999, Acoustics – Port Noise Management and Land Use Planning, and are laid out in the Port Noise Management Plan. We work closely with the Port Noise Liaison Committee on noise levels, and our sophisticated noise monitoring equipment shows that our operations over the year remained inside the set limits.

This year, we took a fresh approach to noise management and worked together with neighbouring residents to develop a package which will see Napier Port contribute 50% of the cost of insulation or double-glazing to reduce noise inside the homes of our most affected neighbours, up to a maximum of \$50,000 per property.

Left - Lifting the Te Matau a Māui waka  
Top right - Napier Port Ocean Swim  
Bottom right - Mural artists Janine and Charles Williams

## MURALS WITH A MESSAGE

Napier Port was proud to be involved with the Sea Walls: Murals for Oceans festival, run by Hawaii-based Pangeaseed Foundation. The festival saw blank walls across Napier transformed by mural artists, with the aim of raising awareness of environmental issues through "artivism" – activism through art.

Two murals were painted at Napier Port during the festival. The first, by Hawaiian artist Kai Kaulukukui, highlights the plight of the Maui dolphin and links Maori and Hawaiian culture through the story of Maui. The second, by Charles and Janine Williams, highlights the plight of the kuaka or bar-tailed godwit, an endangered shore bird endemic to New Zealand. The artists drew inspiration from Chief Tu Ahuriri, for whom Ahuriri is named and expresses the artists' hope that, with courage and an understanding of the greater good, people can change the fate of the kuaka.

### He aha te mea nui o te ao?

What is the most important thing in the world?

### He tangata, he tangata, he tangata.

It is people, it is people, it is people.



Tautoko by Charles and Janine Williams

The rectangular design across the background of the mural is an ancient Maori pattern known as roimata. Translating as 'tears of the albatross', it signifies hurt, loss or sadness. The diamond symbol over the kuaka is known as a pātiki and signifies our kaitiaki or guardianship of the bird.

## ENVIRONMENT

At Napier Port, we're fortunate to live and work in a stunning natural environment. We're committed to good environmental stewardship, and to protecting the harbour for future generations.

This year we embarked on a planting and beautification programme at our empty container depot in Pandora. Since taking over the site in 2015, Napier Port has transformed what was formerly a neglected area into a landscaped green space, designed to blend in with an adjoining inlet and reserve. Sediment ponds have been established to ensure any run-off from the site is free of toxins and to improve the health of the adjacent waterway. Native grasses and flaxes have been planted around the ponds, and kahikatea were planted along the boundary.



## BEACH REPLENISHMENT

We're strong believers in looking after our environment, and do our bit to care for the beach adjacent to the port. In June this year, we cleared fine sand deposits from a tidal drain inside the breakwater and used these to renourish the beach. The sand was tested to ensure it was free of contaminants before being spread along the beach and distributed by the tides.

## WASTE MANAGEMENT AND OUR CARBON FOOTPRINT

Napier Port continued its focus on waste in 2016, recycling 745 tonnes of waste. Since embarking on a concerted waste management programme in 2010, we've cut the amount of waste we send to landfill by 76% or 478 tonnes.

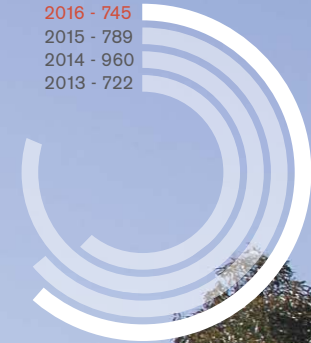
	2013	2014	2015	2016
tCO <sub>2</sub> e per TEU	0.0334	0.0371	0.0316	0.0314

Our electricity consumption reduced by 2.5% during 2016. A 1.3% increase in overall fuel consumption is reflective of an expanded vehicle fleet.

These combined efforts have seen greenhouse gas emissions reduced by 0.8% from 0.0316 tCO<sub>2</sub> per TEU to 0.0314 tCO<sub>2</sub> per TEU.

## RECYCLING IN TONNES

2016 - 745  
2015 - 789  
2014 - 960  
2013 - 722



Replenishing the beach

## SENIOR MANAGEMENT TEAM

**KRISTEN LIE**

CHIEF  
FINANCIAL  
OFFICER

**VIV BULL**

CULTURE &  
CAPABILITY  
MANAGER

**WARREN YOUNG**

CONTAINER  
OPERATIONS  
MANAGER

**ANDREW LOCKE**

COMMERCIAL  
MANAGER

**BRUCE LOCHHEAD**

PORT  
SERVICES  
MANAGER

**MARK BABBINGTON**

GENERAL  
CARGO  
MANAGER

**GARTH COWIE**

CHIEF  
EXECUTIVE  
OFFICER



## BOARD OF DIRECTORS

○ **ALASDAIR  
MACLEOD**  
CHAIRMAN

○ **JON  
NICHOLS**  
DIRECTOR

○ **JOHN  
LOUGHLIN**  
DIRECTOR

○ **WENDIE  
HARVEY**  
DIRECTOR

○ **STEPHEN  
BRADFORD**  
DIRECTOR

○ **CHINTHAKA  
ABEYWICKRAMA**  
DIRECTOR



## CORPORATE GOVERNANCE STATEMENT

### PRINCIPLES BEHIND CORPORATE GOVERNANCE

The Board of 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 protect 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 ensures 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 fewer than six, and no member or employee of any shareholder local authority may hold office as a director.

The Board currently comprises six non-executive directors, of which all are classified as independent. Alasdair MacLeod 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 by committee members and directors during the course of the 2016 financial year. In addition to the scheduled board meetings, directors have also met with management on a range of matters during the year.

Meeting type	Board	Audit & Risk	Remuneration	Health & Safety	Strategy & Planning
<b>Meetings held</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>1</b>
A MacLeod	8	3 <sup>^</sup>	2	4 <sup>^</sup>	1
J Nichols	8	3	-	4 <sup>^</sup>	1
J Loughlin	8	3	-	4	1
W Harvey	8	3 <sup>^</sup>	2	4	1
S Bradford	8	3	2	4	1
C Abeywickrama*	5	1 <sup>^</sup>	-	3 <sup>^</sup>	1
G Cowie **	2	-	-	-	-

\* Appointed to the Board at the AGM in December 2015

\*\* Joined the Board as a Director in November 2015 until the AGM in December 2015 to ensure minimum complement of six directors, as per the Company's constitution

<sup>^</sup> Non-committee members also in attendance

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 to fulfill 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, Chairman

J Loughlin, Director

S Bradford, 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, 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 periodically.

### REMUNERATION COMMITTEE

A MacLeod, Chairman

W Harvey, Director

S Bradford, Director

## HEALTH & SAFETY COMMITTEE

The Health & Safety 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 periodically.

### HEALTH & SAFETY COMMITTEE

W Harvey, Chairman

J Loughlin, Director

S Bradford, 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 periodically, on the effectiveness of the Company's management of material risks. As part of risk management the Company 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 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 2016.

### 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 \$11.471 million (2015: \$12.928 million).

### DIVIDENDS

During the year the 2015 final dividend of \$3.699 million and the 2016 interim dividend of \$4.177 million were paid totalling \$7.876 million.

### DIRECTORS

In accordance with the Company's constitution, J Loughlin retires by rotation at the Annual Meeting of Shareholders.

### REMUNERATION OF DIRECTORS

Remuneration paid to directors during the year was as follows:

A MacLeod	Chairman	\$82,000
S Bradford		\$44,000
J Nichols	Chair of Audit & Risk Management Committee	\$47,000
J Loughlin		\$44,000
W Harvey	Chair of Health & Safety Committee	\$47,000
C Abeywickrama		\$33,000

### REMUNERATION OF EMPLOYEES

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

\$100,000 - 109,999	26
\$110,000 - 119,999	16
\$120,000 - 129,999	11
\$130,000 - 139,999	9
\$140,000 - 149,999	3
\$150,000 - 159,999	1
\$210,000 - 219,999	2
\$220,000 - 229,999	5
\$230,000 - 239,999	2
\$240,000 - 249,999	2
\$250,000 - 259,999	1
\$600,000 - 609,999	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 AJ MACLEOD

Optimal Product Limited	Chairman
Silverstripe Limited	Chairman / Shareholder
Hold Fast Investments Limited	Chairman
Tomatoes NZ	Chairman
IHC-Board Appointments Committee	Member
Radium Technology NZ Advisory Board	Member

#### MS W HARVEY

Excellence in Business Solutions Limited	Director / Shareholder
Quality Roding and Services (Wairoa) Limited	Director
Centralines Limited	Director
Electrical Training Company	Director
Hawke's Bay Airport	Director
Hohepa Hawke's Bay Board	Member

**MR S BRADFORD**

Tarrawanna PTY Limited	Director / Shareholder
Yarrawonga Court PTY Limited	Director
Tasmanian Ports Corporation Pty Ltd	Chairman
Australian Cruise Association	Chairman
Flagstaff Partners	Senior Advisor

**MR JE NICHOLS**

Nichols Consulting Limited	Director / Shareholder
Centralines Limited	Chairman
Palmerston North Airport Limited	Director
Hastings District Council, Audit & Risk Sub-Committee	Member
Maungahuru Tangitu Trust, Audit & Risk Committee	Chairman

**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
Powerco Limited	Chairman
EastPack Limited	Director
Havelock North Fruit Company Limited	Chairman / Shareholder
Meat Industry Association Inc.	Chairman
Bay Venues Ltd	Director

**MR C ABEYWICKRAMA**

Netlogix Ltd & subsidiaries / associates	Director / Shareholder
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**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 auditor are disclosed in the financial statements.

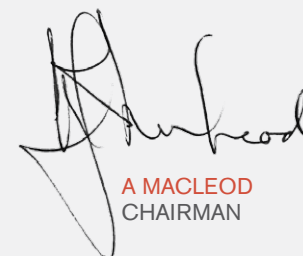
**PERFORMANCE INDICATORS**

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	2016
Net debt to net debt plus equity	20-40%	29.7%
Earnings before interest and tax to interest expense	>3 times	4.5 times
Earnings before depreciation, interest and tax to total non-current assets	13.0%	10.4%
Net profit after tax to shareholder's funds	8.0%	6.1%

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



**A MACLEOD**  
CHAIRMAN



**J NICHOLS**  
DIRECTOR

## INCOME STATEMENT

	Notes	2016 \$000	2015 \$000
<b>Operating income</b>	4	<b>72,653</b>	<b>72,053</b>
Employee benefit expenses		22,805	20,998
Maintenance expenses		6,930	8,060
Other operating expenses	5	12,505	13,255
<b>Operating expenses</b>		<b>42,240</b>	<b>42,313</b>
<b>Results from operating activities</b>		<b>30,413</b>	<b>29,740</b>
Depreciation, amortisation and impairment expenses	14,15	10,251	7,590
<b>Operating profit before finance costs &amp; tax</b>		<b>20,162</b>	<b>22,150</b>
Net finance costs	6	4,184	4,166
Share of loss of equity accounted investee	17	39	-
<b>Profit before income tax</b>		<b>15,939</b>	<b>17,984</b>
Income tax expense	7	4,468	5,056
<b>Profit for the period attributable to the shareholder of the Company</b>		<b>11,471</b>	<b>12,928</b>

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

## STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016 \$000	2015 \$000
Profit for the period attributable to the shareholder of the Company		11,471	12,928
<b>Other comprehensive income</b>			
Changes in fair value of cash flow hedges		(3,125)	(3,119)
Deferred tax on changes in fair value of cash flow hedges	8	875	873
<b>Total comprehensive income</b>		<b>9,221</b>	<b>10,682</b>

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

## STATEMENT OF CHANGES IN EQUITY

	Notes	\$000 Share Capital	\$000 Revaluation Reserve	\$000 Hedging Reserve	\$000 Retained Earnings	\$000 Total Equity
<b>Balance as at 1 October 2015</b>		<b>21,000</b>	<b>62,008</b>	<b>(3,110)</b>	<b>106,981</b>	<b>186,879</b>
Profit for the period attributable to the shareholder of the Company		-	-	-	11,471	11,471
Changes in fair value of cash flow hedges, net of deferred tax		-	-	(2,250)	-	(2,250)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(2,250)</b>	<b>11,471</b>	<b>9,221</b>
Dividends	9	-	-	-	(7,876)	(7,876)
<b>Total transactions with the owner in their capacity as owner</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,876)</b>	<b>(7,876)</b>
<b>Total movement in equity</b>		<b>-</b>	<b>-</b>	<b>(2,250)</b>	<b>3,595</b>	<b>1,345</b>
<b>Balance as at 30 September 2016</b>	10	<b>21,000</b>	<b>62,008</b>	<b>(5,360)</b>	<b>110,576</b>	<b>188,224</b>

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

## STATEMENT OF CHANGES IN EQUITY

	Notes	\$000 Share Capital	\$000 Revaluation Reserve	\$000 Hedging Reserve	\$000 Retained Earnings	\$000 Total Equity
<b>Balance as at 1 October 2014</b>		<b>21,000</b>	<b>62,008</b>	<b>(864)</b>	<b>101,450</b>	<b>183,594</b>
Profit for the period attributable to the shareholder of the Company		-	-	-	12,928	12,928
Changes in fair value of cash flow hedges, net of deferred tax		-	-	(2,246)	-	(2,246)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(2,246)</b>	<b>12,928</b>	<b>10,682</b>
Dividends	9	-	-	-	(7,397)	(7,397)
<b>Total transactions with the owners in their capacity as owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,397)</b>	<b>(7,397)</b>
<b>Total movement in equity</b>		<b>-</b>	<b>-</b>	<b>(2,246)</b>	<b>5,531</b>	<b>3,285</b>
<b>Balance as at 30 September 2015</b>	10	<b>21,000</b>	<b>62,008</b>	<b>(3,110)</b>	<b>106,981</b>	<b>186,879</b>

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

## STATEMENT OF FINANCIAL POSITION

	Notes	2016 \$000	2015 \$000
<b>EQUITY</b>			
Share capital	10	21,000	21,000
Reserves	10	56,648	58,898
Retained earnings		110,576	106,981
		<b>188,224</b>	<b>186,879</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	20	79,700	84,000
Deferred tax liability	8	18,203	17,757
Derivative financial instruments	20	6,479	3,728
Provisions for employee entitlements	13	356	364
		<b>104,738</b>	<b>105,849</b>
<b>CURRENT LIABILITIES</b>			
Bank overdraft		-	270
Taxation payable		1,067	1,540
Derivative financial instruments	20	1,346	848
Trade and other payables	12	7,205	6,129
		<b>9,618</b>	<b>8,787</b>
		<b>302,580</b>	<b>301,515</b>

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

## STATEMENT OF FINANCIAL POSITION

	Notes	2016 \$000	2015 \$000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	288,118	288,652
Intangible assets	14	1,911	1,224
Derivative financial instruments	20	380	39
Investment in equity accounted investee	17	925	694
Investment properties	16	2,860	2,850
		<b>294,194</b>	<b>293,459</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		459	1
Trade and other receivables	11	7,927	7,755
Derivative financial instruments	20	-	217
Inventories		-	83
		<b>8,386</b>	<b>8,056</b>
		<b>302,580</b>	<b>301,515</b>

On behalf of the Board of Directors, who authorised the issue of these financial statements on 21 November 2016.



**A MACLEOD**  
CHAIRMAN



**J NICHOLS**  
DIRECTOR

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

## STATEMENT OF CASH FLOWS

	2016 \$000	2015 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash was provided from:		
Receipts from customers	73,386	73,266
Cash was applied to:		
Payments to suppliers & employees	(41,486)	(43,283)
Interest paid	(4,204)	(4,235)
Taxes paid	(4,495)	(5,052)
Net GST received/(paid)	(76)	175
	<b>(50,261)</b>	<b>(52,395)</b>
<b>Net cash flows from operating activities</b>	<b>23,125</b>	<b>20,871</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash was provided from:		
Sale of assets	244	89
Cash was applied to:		
Investment in associate	(270)	(615)
Acquisition of assets	(10,195)	(34,465)
	<b>(10,465)</b>	<b>(35,080)</b>
<b>Net cash flows used in investing activities</b>	<b>(10,221)</b>	<b>(34,991)</b>

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

## STATEMENT OF CASH FLOWS

	2016 \$000	2015 \$000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash was provided from:		
Proceeds from loans and borrowings	-	21,500
Cash was applied to:		
Repayment of loans and borrowings	(4,300)	-
Dividends paid	(7,876)	(7,397)
	<b>(12,176)</b>	<b>(7,397)</b>
<b>Net cash flows used in financing activities</b>	<b>(12,176)</b>	<b>14,103</b>
<b>Net increase/(decrease) in cash balances</b>	<b>728</b>	<b>(17)</b>
Cash and cash equivalents at beginning of year	(269)	(252)
Cash and cash equivalents at end of year	459	(269)

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

## RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

	2016 \$000	2015 \$000
Profit after taxation	11,471	12,928
Add non-cash items:		
Fair value gains	(10)	(10)
Depreciation and amortisation	9,233	7,590
Impairment of assets	1,018	-
Share of loss of equity accounted investee	39	-
Deferred tax	1,321	867
	<b>11,601</b>	<b>8,447</b>
Other adjustments:		
Net loss/(profit) on sale of property, plant and equipment	20	(2)
Increase/(decrease) in non-current provisions	(8)	42
	<b>12</b>	<b>40</b>
Movements in working capital:		
Increase in accounts payable	128	654
Increase in receivables	(171)	(1,282)
Decrease in inventories	84	84
	<b>41</b>	<b>(544)</b>
<b>Net cash inflow from operating activities</b>	<b>23,125</b>	<b>20,871</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

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

Port of Napier Limited provides and manages 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 amounts recognised in the financial statements are as follows:

- Valuation of sea defences (note 15)
- Estimation of useful lives for depreciation (note 15)

Information that is considered material and relevant to understanding these financial statements is included within the notes accompanying the financial statements. Assessments of materiality require judgment and includes consideration of relevant qualitative and quantitative factors.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below or, where an accounting policy is directly related to an individual note, within the accompanying notes to the financial statements.

#### 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.

#### 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.

#### 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.

#### 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.

#### 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.

#### New standards adopted and pronouncements not yet adopted

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not yet effective. The Company has not yet determined the potential impact of the following standards which will both be effective for the Company's 2019 financial statements:

- NZ IFRS 9 Financial Instruments
- NZIFRS 15 Revenue from Contracts with Customers

## NOTES TO THE FINANCIAL STATEMENTS

	Notes	2016 \$000	2015 \$000
4. REVENUE			
Port operations		72,641	72,043
Property operations	16	12	10
<b>Operating income</b>		<b>72,653</b>	<b>72,053</b>

### Accounting policies:

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.

## 5. OTHER EXPENSES

Expenses included within other operating expenses:

Auditor remuneration - audit fees		106	104
Auditor remuneration - non audit services		-	42
Directors' fees		297	309
Operating leases		200	218
Fair value gain on investment property	16	(10)	(10)
Net (profit)/loss on sale of property, plant & equipment		20	(2)

### Accounting policies:

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

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>6. FINANCIAL INCOME AND EXPENSES</b>		
Interest income	(4)	(13)
<b>Finance income</b>	<b>(4)</b>	<b>(13)</b>
Interest expense on borrowings	4,456	4,552
Less interest capitalised to property, plant & equipment	(268)	(352)
Fair value loss on interest rate swaps	-	(21)
<b>Finance expenses</b>	<b>4,188</b>	<b>4,179</b>
<b>Net finance costs</b>	<b>4,184</b>	<b>4,166</b>
<b>7. INCOME TAX</b>		
Income tax on the surplus for the year at 28%	4,462	5,035
Adjustment to prior year tax	(5)	(1)
Tax effect of non-deductible items	11	22
<b>Income tax expense reported in the income statement</b>	<b>4,468</b>	<b>5,056</b>
The income tax expense is represented by:		
Current tax	3,141	4,191
Deferred tax	1,327	865
<b>Income tax expense reported in the income statement</b>	<b>4,468</b>	<b>5,056</b>

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>8. DEFERRED TAX LIABILITY</b>		
Balance 1 October	(17,757)	(17,742)
Adjustment to prior year provision	6	(23)
Deferred portion of current year tax expense	(1,327)	(865)
Amounts charged or credited direct to equity	875	873
<b>Balance 30 September</b>	<b>(18,203)</b>	<b>(17,757)</b>
<i>Deferred tax is represented by:</i>		
Property, plant & equipment	(10,869)	(9,909)
Fair value (gains)/losses on derivatives	2,084	1,209
Revaluation of sea defences	(9,943)	(9,670)
Other	525	613
	<b>(18,203)</b>	<b>(17,757)</b>
<b>Imputation credit account</b>		
<b>Balance 30 September</b>	<b>19,113</b>	<b>18,690</b>

### *Accounting policies:*

Current tax assets and liabilities are measured at the amount expected to be recovered from or payable to the IRD based on the taxable income for the period.

Deferred tax is provided 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. 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 and subsequently reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>9. DIVIDENDS</b>		
2016 interim dividend paid - 19.89 cents per share (2015: 18.58 cps)	4,177	3,901
2015 final dividend paid - 17.61 cents per share (2014: 16.65 cps)	3,699	3,496
	<b>7,876</b>	<b>7,397</b>

### Accounting policies:

Provision is made for dividends when they have been approved by the Board of Directors.

## 10. CAPITAL AND RESERVES

### Share capital

Issued and paid up

<b>21,000,000 ordinary shares (2015: 21,000,000 shares)</b>	<b>21,000</b>	<b>21,000</b>
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All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

### Hedge reserve

<b>(5,360)</b>	<b>(3,110)</b>
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The hedging 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.

### Revaluation reserve

<b>62,008</b>	<b>62,008</b>
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The revaluation reserve relates to the revaluation of the port sea defences.

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>11. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	6,596	6,520
Accruals and prepayments	1,331	1,235
	<b>7,927</b>	<b>7,755</b>
The ageing of trade receivables at reporting dates is set out below:		
Not past due	5,087	5,439
Past due 0 - 30 days	1,429	680
Past due 30 - 60 days	22	160
Past due > 60 days	58	241
	<b>6,596</b>	<b>6,520</b>

The receivables carrying value is equivalent to fair value.

*Accounting policies:*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. The carrying value of trade receivables are reduced to the estimated recoverable amount when collection is no longer probable.

## 12. TRADE AND OTHER PAYABLES

Trade accounts	2,297	1,922
Trade accruals	1,448	1,224
Employee entitlement accruals (refer note 13)	3,460	2,983
	<b>7,205</b>	<b>6,129</b>

The accounts payable carrying value is equivalent to fair value.

*Accounting policies:*

Payables are initially recorded at fair value and subsequently at amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>13. PROVISIONS FOR EMPLOYEE ENTITLEMENTS</b>		
Balance at beginning of year	364	322
Additional provision made	67	70
Amount utilised	(75)	(28)
Balance at end of year:		
<b>Non-current</b>	<b>356</b>	<b>364</b>

### *Accounting policies:*

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 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.

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>14. INTANGIBLE ASSETS</b>		
	Computer Software	Computer Software
<b>Cost</b>		
Opening cost	4,980	4,439
Additions	1,077	541
<b>Closing cost</b>	<b>6,057</b>	<b>4,980</b>
<b>Accumulated amortisation</b>		
Opening balance	3,756	3,528
Amortisation for the period	390	228
<b>Closing balance</b>	<b>4,146</b>	<b>3,756</b>
<b>Closing net book value</b>	<b>1,911</b>	<b>1,224</b>

### Accounting policies:

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 of between three to ten years.

## NOTES TO THE FINANCIAL STATEMENTS

### 15. PROPERTY, PLANT AND EQUIPMENT

	<i>Port Land</i>	<i>Sea Defences</i>	<i>Site Improvements</i>	<i>Wharves &amp; Jetties</i>	<i>Buildings</i>	<i>Plant &amp; Equipment</i>	<i>Dredging</i>	<i>Work in Progress</i>	<i>Total</i>
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost or valuation</b>									
Opening cost/valuation 2014	29,943	76,527	44,024	43,643	21,102	84,288	9,427	12,401	321,355
Additions	141	-	12,634	1,158	5,334	6,113	4,087	32,267	61,734
Transfers/disposals	4,325	-	25	-	(10)	(423)	-	(30,008)	(26,091)
<b>Closing cost/valuation 2015</b>	<b>34,409</b>	<b>76,527</b>	<b>56,683</b>	<b>44,801</b>	<b>26,426</b>	<b>89,978</b>	<b>13,514</b>	<b>14,660</b>	<b>356,998</b>
Additions	-	185	891	-	831	15,408	1,377	10,667	29,359
Transfers to income statement	-	-	-	-	-	-	-	(327)	(327)
Transfers/disposals	-	-	-	-	-	(3,502)	-	(19,768)	(23,270)
<b>Closing cost/valuation 2016</b>	<b>34,409</b>	<b>76,712</b>	<b>57,574</b>	<b>44,801</b>	<b>27,257</b>	<b>101,884</b>	<b>14,891</b>	<b>5,232</b>	<b>362,760</b>
<b>Accumulated depreciation and impairment</b>									
Opening balance 2014	-	652	15,657	6,956	7,864	27,445	2,757	-	61,331
Depreciation	-	326	1,462	560	576	4,005	433	-	7,362
Disposals	-	-	-	-	(10)	(337)	-	-	(347)
<b>Closing balance 2015</b>	<b>-</b>	<b>978</b>	<b>17,119</b>	<b>7,516</b>	<b>8,430</b>	<b>31,113</b>	<b>3,190</b>	<b>-</b>	<b>68,346</b>
Depreciation	-	326	1,690	569	661	4,909	688	-	8,843
Impairments	-	-	-	-	-	691	-	-	691
Disposals	-	-	-	-	-	(3,238)	-	-	(3,238)
<b>Closing balance 2016</b>	<b>-</b>	<b>1,304</b>	<b>18,809</b>	<b>8,085</b>	<b>9,091</b>	<b>33,475</b>	<b>3,878</b>	<b>-</b>	<b>74,642</b>
<b>Closing net book value 2015</b>	<b>34,409</b>	<b>75,549</b>	<b>39,564</b>	<b>37,285</b>	<b>17,996</b>	<b>58,865</b>	<b>10,324</b>	<b>14,660</b>	<b>288,652</b>
<b>Closing net book value 2016</b>	<b>34,409</b>	<b>75,408</b>	<b>38,765</b>	<b>36,716</b>	<b>18,166</b>	<b>68,409</b>	<b>11,013</b>	<b>5,232</b>	<b>288,118</b>

During the year the Company borrowed funds for the acquisition of new property, plant and equipment. Interest was capitalised during the acquisition period of \$268,000 at rates of 3.30% to 3.90% (2015: \$352,000).

## NOTES TO THE FINANCIAL STATEMENTS

Sea defences were revalued in 2012 by independent valuer Rob Kilgour (MTech, BE, CPEng, MIPENZ) of AECOM as sub consultant to Darroch Ltd. As at September 2015 the Company commissioned Beca Ltd to complete a visual condition assessment of the eastern and northern breakwater and provide an updated replacement cost estimate of the selected assets. Having taken into consideration the outcomes of the review and subsequent maintenance activities the Company considers that the carrying value in the financial accounts is not materially different from its current depreciated replacement value.

### *Accounting policies:*

#### **Recognition and measurement of assets**

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, 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.

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.

Work in progress are costs incurred in the course of bringing assets to the location and condition necessary for their intended service and includes costs of obtaining resource consents where required to proceed with capital projects.

#### **Depreciation**

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

The main classes of property, plant and equipment and their useful lives are:

	Years
Site improvements	10-40
Vehicles, plant and equipment	3-25
Floating plant	30
Maintenance dredging	8
Wharves and jetties	10-80
Buildings	10-60
Sea defences	100-200
Cranes	20

Land and capital dredging are not depreciated as they are considered to have indefinite useful lives.

#### **Impairment**

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.

## NOTES TO THE FINANCIAL STATEMENTS

	2016 \$000	2015 \$000
<b>16. INVESTMENT PROPERTIES</b>		
Balance at beginning of year	2,850	7,190
Transfer to property, plant & equipment	-	(4,350)
Net gain from fair value adjustments	10	10
<b>Balance at end of year</b>	<b>2,860</b>	<b>2,850</b>
<b>17. INVESTMENT IN JOINT VENTURE</b>		
<b>Investment in joint venture</b>	<b>925</b>	<b>694</b>
<b>Movements in the carrying value of joint venture</b>		
Opening balance	694	79
Additions	270	615
Share of recognised revenues and expenditure	(39)	-
<b>Balance at end of year</b>	<b>925</b>	<b>694</b>
<b>Summarised financial information of joint venture</b>		
Assets	2,810	2,082
Liabilities	(35)	-
<b>Net assets 100%</b>	<b>2,775</b>	<b>2,082</b>
<b>Port of Napier Limited share (33.33%)</b>	<b>925</b>	<b>694</b>
Revenues	57	-
Net loss after tax	(117)	-
Port of Napier Limited share (33.33%)	(39)	-

Longburn Intermodal Freight Hub Limited has been set up as a joint venture to develop a facility at Longburn near Palmerston North to provide container storage and logistics solutions.

### *Accounting policies:*

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.

## NOTES TO THE FINANCIAL STATEMENTS

2016  
\$000

2015  
\$000

### 18. RELATED PARTY TRANSACTIONS

#### Transactions with owners

Related party	Nature of transactions	Value of transactions	
Hawke's Bay Regional Council	Rates, levies & resource consents	4	5
	Council services	18	-
	Subvention payment	4	562
	Consultancy contribution	2	25
Hawke's Bay Regional Investment Company	Dividends	7,876	7,397
	Subvention payment	127	149

The Company is a wholly owned subsidiary of the Hawke's Bay Regional Investment Company Limited, which is in turn a wholly owned subsidiary of the Hawke's Bay Regional Council.

The amounts owing to related parties 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 directors and executives, being the key management personnel, is as follows:

Short-term employee benefits	2,257	2,291
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## NOTES TO THE FINANCIAL STATEMENTS

2016  
\$000

2015  
\$000

### 19. COMMITMENTS & CONTINGENCIES

#### *Capital expenditure commitments*

At balance date there were commitments in respect of contracts for plant capital expenditure totalling \$2,230,000 (2015: \$2,240,000).

#### *Operating lease commitments*

At balance date the Company had the following operating lease commitments:

Payable within one year	11	91
Between one and two years	4	11
Between two and five years	-	4
	<b>15</b>	<b>106</b>

#### *Contingent liabilities*

There were no material contingent liabilities at balance date (2015: nil).

## NOTES TO THE FINANCIAL STATEMENTS

### 20. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### 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.

#### *Accounting policies:*

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. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in the income statement. 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 any ineffective portion of the hedge is recognised immediately in the income statement.

#### 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 is as disclosed in the statement of financial position and collateral or other security is not 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.

## NOTES TO THE FINANCIAL STATEMENTS

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
2016	\$000	\$000	\$000	\$000	\$000	\$000
Trade and other payables	2,297	2,056	2,056	-	-	-
Bank borrowings	79,700	88,261	2,431	85,830	-	-
Interest rate swaps	7,433	8,336	1,362	1,417	4,071	1,486
Forward exchange contracts	12	913	913	-	-	-
	<b>89,442</b>	<b>99,566</b>	<b>6,762</b>	<b>87,247</b>	<b>4,071</b>	<b>1,486</b>

### 2015

Trade and other payables	1,922	1,922	1,922	-	-	-
Bank borrowings	84,000	89,616	3,276	26,340	60,000	-
Interest rate swaps	4,537	5,152	1,078	1,047	2,385	642
Forward exchange contracts	(217)	2,007	2,007	-	-	-
	<b>90,242</b>	<b>98,697</b>	<b>8,283</b>	<b>27,387</b>	<b>62,385</b>	<b>642</b>

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### Interest rate risk

The Company 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:

	2016 \$000	2015 \$000
Less than 1 year	6,000	-
1 - 2 years	24,000	6,000
2 - 3 years	-	24,000
Greater than 3 years	104,500	104,500
	<b>134,500</b>	<b>134,500</b>

### 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.

	Profit or loss		Other comprehensive income	
	100bp Increase \$000	100bp Decrease \$000	100bp Increase \$000	100bp Decrease \$000
Interest rate swaps	-	-	3,219	(3,452)
<b>30 September 2016</b>	-	-	<b>3,219</b>	<b>(3,452)</b>
Interest rate swaps	-	-	3,393	(3,672)
<b>30 September 2015</b>	-	-	<b>3,393</b>	<b>(3,672)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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 above a certain value threshold as they arise and use forward foreign exchange contracts to manage these 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 hedged future transaction occurs. 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	Less than 1 Year
	\$000	\$000	\$000
<b>2016</b>			
EUR	836	534	534
CAD	59	49	49
USD	18	13	13
	<b>913</b>		
<b>2015</b>			
EUR	1,950	1,198	1,198
CAD	57	49	49
	<b>2,007</b>		

## NOTES TO THE FINANCIAL STATEMENTS

### Foreign exchange sensitivity analysis

At reporting date, a 10% strengthening or weakening of the New Zealand Dollar against the relevant foreign currencies with all other variables held constant, would increase/(decrease) profit or loss and other comprehensive income by the amounts shown below.

	Profit or loss		Other comprehensive income	
	10% NZD Increase \$000	10% NZD Decrease \$000	10% NZD Increase \$000	10% NZD Decrease \$000
<b>30 September 2016</b>	-	-	(82)	100
<b>30 September 2015</b>	-	-	(211)	263

### Credit facilities

At balance date the Company had total bank facilities of:

	2016 \$000	2015 \$000
Overdraft	1,000	1,000
Multi option credit facilities	110,000	110,000
<b>Total</b>	<b>111,000</b>	<b>111,000</b>

At balance date the Company usage of the bank facilities was:

	2016 \$000	2015 \$000
Overdraft	-	270
Multi option credit facilities	79,700	84,000
<b>Total</b>	<b>79,700</b>	<b>84,270</b>

The Company has two multi option credit facilities with Westpac, one for \$50 million and the other for \$60 million, both expiring 1 October 2017. 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.

## NOTES TO THE FINANCIAL STATEMENTS

	Notes	2016 \$000	2015 \$000
<b>Financial assets and liabilities</b>			
Financial assets at fair value:			
Interest rate swaps		-	39
Forward foreign exchange contracts		-	217
		-	<b>256</b>
Loans and receivables at amortised cost:			
Cash		459	1
Receivables		6,596	6,520
		<b>7,055</b>	<b>6,521</b>
<b>Total financial assets</b>		<b>7,055</b>	<b>6,777</b>
Financial liabilities at fair value:			
Interest rate swaps		7,433	4,576
Forward foreign exchange contracts		12	-
		<b>7,445</b>	<b>4,576</b>
Financial liabilities at amortised cost:			
Overdraft		-	270
Trade payables		2,297	1,922
Loans		79,700	84,000
		<b>81,997</b>	<b>86,192</b>
<b>Total financial liabilities</b>		<b>89,442</b>	<b>90,768</b>

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### Estimation of the 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).

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 shareholder's equity, so as to maintain shareholder and banker confidence and to sustain the future development of the Company. The Company has established policies in capital management, including the specific requirements relating to minimum interest cover, minimum debt to debt plus equity, and minimum total committed funding to maximum debt over the next 12 months.

The Company is required to comply with certain financial covenants in respect of external borrowings namely that a minimum interest cover is maintained, minimum shareholder's funds as a percentage of total tangible assets, and maximum debt in relation to earnings before interest, tax, depreciation and amortisation (EBITDA). The Company has met all covenants throughout the reporting period.

## FIVE-YEAR FINANCIAL SUMMARY

	2016	2015	2014	2013	2012
Total cargo (million tonnes)	3.92	4.07	4.11	3.99	3.71
Container volumes (TEU)	257,380	256,438	220,048	206,272	204,065
Revenue (\$m)	72.7	72.1	67.0	62.1	60.3
Operating profit* (\$m)	30.4	29.7	29.3	27.0	25.4
Net profit after tax (\$m)	11.5	12.9	13.4	11.8	11.1
Dividends (\$m)	7.9	7.4	7.0	6.1	5.9
Capital investment (\$m)	10.3	35.1	19.2	20.9	9.5
Net debt (\$m)	79.2	84.3	62.8	60.1	51.2
Return on assets**	10.4%	10.6%	11.2%	10.8%	12.4%
Return on shareholder's funds***	6.1%	7.0%	7.4%	6.8%	8.1%

\* Operating profit before interest, tax, depreciation and amortisation, and joint venture results.

\*\* Operating profit divided by average total non-current assets.

\*\*\* Net profit after tax divided by average shareholder's funds.

## INDEPENDENT AUDITOR'S REPORT



Chartered Accountants

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

### OPINION

We have audited the financial statements of the company on pages 38 to 66, that comprise the statement of financial position as at 30 September 2016, 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.

In our opinion, the financial statements of the company:

- present fairly, in all material respects:
  - its financial position as at 30 September 2016; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 21 November 2016. 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 readers' 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 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 the 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.

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 the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand.

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

The Board of Directors is also 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.

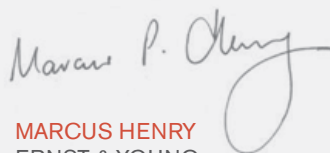
## RESPONSIBILITIES OF THE AUDITOR

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 the Public Audit Act 2001.

## 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.

Other than the audit, we have no relationship with or interests in the company.



Marcus P. Henry

MARCUS HENRY  
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

