



FINANCIAL STATEMENTS
ANNUAL REPORT 2017: PART 2 of 2

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BOARD OF DIRECTORS

JON
NICHOLS
DIRECTOR

CHINTHAKA
ABEYWICKRAMA
DIRECTOR

WENDIE
HARVEY
DIRECTOR

STEPHEN
BRADFORD
DIRECTOR

STEPHEN
MOIR
DIRECTOR

ALASDAIR
MACLEOD
CHAIRMAN



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 look 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 2017 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
Meetings held	8	3	2	3	1
A MacLeod	8	3^	2	3	1
J Nichols	8	3		3	1
J Loughlin *	3	2			
W Harvey	8	3^	2	3	1
S Bradford	8	3	2	3	1
C Abeywickrama	8	3^		3	1
S Moir **	5	1		3	1

* Retired from the Board at the AGM in December 2016

** Appointed to the Board at the AGM in December 2016

^ 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 in fulfilling its responsibilities to discharge its financial reporting and regulatory responsibilities, ensure the ability and independence of the external auditor to carry out its statutory audit role, 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

S Bradford

S Moir

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

S Bradford

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. The Charter is approved by the Board and reviewed periodically.

HEALTH & SAFETY COMMITTEE:

W Harvey, Chairman

S Bradford

A MacLeod

S Bradford

S Moir

C Abeywickrama

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 relevant 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 2017.

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 \$16.7 million (2016: \$11.5 million).

DIVIDENDS

During the year the 2016 final dividend of \$3.7 million and the 2017 interim dividend of \$7.0 million were paid totalling \$10.7 million.

DIRECTORS

In accordance with the Company's constitution, Mr S Bradford and Mr J Nichols retire by rotation at the Annual Meeting of Shareholders. Mr S Bradford, being eligible, offers himself for re-election.

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
S Moir	(appointed December 2016)	\$33,000
W Harvey	(Chair of Health & Safety Committee)	\$47,000
C Abeywickrama		\$44,000
J Loughlin	(retired December 2016)	\$11,000

REMUNERATION OF EMPLOYEES

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

\$100,000 - 109,999	27
\$110,000 - 119,999	22
\$120,000 - 129,999	14
\$130,000 - 139,999	7
\$140,000 - 149,999	5
\$150,000 - 159,999	2
\$160,000 - 169,999	2
\$180,000 - 189,999	1
\$200,000 - 209,999	1
\$220,000 - 229,999	1
\$230,000 - 239,999	1
\$240,000 - 249,999	3
\$250,000 - 259,999	1
\$270,000 - 279,999	2
\$290,000 - 299,999	2
\$300,000 - 309,999	1
\$650,000 - 659,999	1

The annual remuneration of employees includes salary, redundancy, 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
Silverstripe Trustee Limited	Director

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
Tangihanga Joint Venture	Director

MR S BRADFORD

Tarrawanna PTY Limited	Director / Shareholder
Yarrawonga Court PTY Limited	Director
Tasmanian Ports Corporation Pty Ltd	Chairman
Flagstaff Partners	Senior Advisor
Stony Creek Racing Club Inc	Director

MR J NICHOLS

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

MR S MOIR

The Guardians of NZ Superannuation Fund	Director
IJAP 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	2017
Debt to debt plus equity	20-40%	29%
Interest coverage ratio	>3 times	9 times
Operating return on assets	13.0%	12.5%
Return on shareholder's funds	8.0%	8.5%



A MACLEOD
CHAIRMAN



J NICHOLS
DIRECTOR

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Notes	2017 \$000	2016 \$000
Operating income	4	86,679	72,653
Employee benefit expenses		26,196	22,805
Maintenance expenses		9,053	6,930
Other operating expenses	5	14,076	12,495
Operating expenses		49,325	42,230
Profit from operating activities		37,354	30,423
Depreciation, amortisation and impairment expenses	14,15	11,062	10,251
Other (income) and expenses	5	(114)	10
Share of loss of equity accounted investee	18	141	39
Profit before finance costs & tax		26,265	20,123
Net finance costs	6	3,965	4,184
Profit before income tax		22,300	15,939
Income tax expense	7	5,594	4,468
Profit for the period attributable to the shareholder of the Company		16,706	11,471

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Notes	2017 \$000	2016 \$000
Profit for the period attributable to the shareholder of the Company		16,706	11,471
Other comprehensive income			
Changes in fair value of cash flow hedges		2,509	(3,125)
Deferred tax on changes in fair value of cash flow hedges	8	(703)	875
Revaluation of sea defences		12,629	-
Deferred tax on revaluation of sea defences	8	(3,560)	-
Total comprehensive income		27,581	9,221

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2017

Balance as at 1 October 2016

Profit for the period attributable to the shareholder of the Company

Revaluation of sea defences, net of deferred tax

Changes in fair value of cash flow hedges, net of deferred tax

Total comprehensive income

Dividends

Total transactions with the owner in their capacity as owner

Total movement in equity

Balance as at 30 September 2017

Balance as at 1 October 2015

Profit for the period attributable to the shareholder of the Company

Changes in fair value of cash flow hedges, net of deferred tax

Total comprehensive income

Dividends

Total transactions with owners in their capacity as owners

Total movement in equity

Balance as at 30 September 2016

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

Notes	\$000	\$000	\$000	\$000	\$000
	Share Capital	Revaluation Reserve	Hedging Reserve	Retained Earnings	Total Equity
	21,000	62,008	(5,360)	110,576	188,224
	-	-	-	16,706	16,706
	-	9,069	-	-	9,069
	-	-	1,806	-	1,806
	-	9,069	1,806	16,706	27,581
9	-	-	-	(10,700)	(10,700)
	-	-	-	(10,700)	(10,700)
	-	9,069	1,806	6,006	16,881
10	21,000	71,077	(3,554)	116,582	205,105
	21,000	62,008	(3,110)	106,981	186,879
	-	-	-	11,471	11,471
	-	-	(2,250)	-	(2,250)
	-	-	(2,250)	11,471	9,221
9	-	-	-	(7,876)	(7,876)
	-	-	-	(7,876)	(7,876)
	-	-	(2,250)	3,595	1,345
10	21,000	62,008	(5,360)	110,576	188,224

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2017

	Notes	2017 \$'000	2016 \$'000
EQUITY			
Share capital	10	21,000	21,000
Reserves	10	67,523	56,648
Retained earnings		116,582	110,576
		205,105	188,224
NON-CURRENT LIABILITIES			
Loans and borrowings	17	83,571	79,700
Deferred tax liability	8	21,662	18,203
Derivative financial instruments	21	3,563	6,479
Provisions for employee entitlements	13	371	356
		109,167	104,738
CURRENT LIABILITIES			
Taxation payable		2,255	1,067
Derivative financial instruments	21	1,373	1,346
Trade and other payables	12	11,183	7,205
		14,811	9,618
		329,083	302,580

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



	Notes	2017 \$000	2016 \$000
NON-CURRENT ASSETS			
Property, plant and equipment	15	307,189	288,118
Intangible assets	14	1,653	1,911
Investment in equity accounted investee	18	834	925
Derivative financial instruments	21	-	380
Investment properties	16	7,285	2,860
		316,961	294,194

CURRENT ASSETS

Cash and cash equivalents		231	459
Trade and other receivables	11	11,891	7,927
		12,122	8,386
		329,083	302,580

On behalf of the Board of Directors, who authorised the issue of these financial statements on 20 November 2017.

A MACLEOD
CHAIRMAN

J NICHOLS
DIRECTOR



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017 \$000	2016 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	83,030	73,386
Cash was applied to:		
Payments to suppliers & employees	(48,185)	(41,486)
Interest paid	(4,076)	(4,204)
Taxes paid	(5,209)	(4,495)
Net GST paid	(374)	(76)
	(57,844)	(50,261)
Net cash flows from operating activities	25,186	23,125
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Sale of assets	110	244
Cash was applied to:		
Investment in associate	(50)	(270)
Acquisition of investment property	(3,951)	-
Acquisition of other assets	(14,734)	(10,195)
	(18,724)	(10,465)
Net cash flows used in investing activities	(18,614)	(10,221)

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



	2017 \$000	2016 \$000
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CASH FLOWS FROM FINANCING ACTIVITIES

Cash was provided from:

Net proceeds from loans and borrowings	3,900	-
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Cash was applied to:

Repayment of loans and borrowings	-	(4,300)
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Dividends paid	(10,700)	(7,876)
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	(10,700)	(12,176)
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Net cash flows used in financing activities	(6,800)	(12,176)
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Net (decrease)/increase in cash balances	(228)	728
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Cash and cash equivalents at beginning of year	459	(269)
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Cash and cash equivalents at end of year	231	459
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RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017 \$000	2016 \$000
Profit after taxation	16,706	11,471
Add non-cash items:		
Fair value gains	(474)	(10)
Depreciation and amortisation	10,625	9,233
Impairment of assets	437	1,018
Share of loss of equity accounted investee	141	39
Deferred tax	(803)	1,321
	9,926	11,601
Other adjustments:		
Net loss on sale of property, plant and equipment	217	20
Increase/(decrease) in non-current provisions	15	(8)
	232	12
Movements in working capital:		
Increase in accounts payable	2,287	128
Increase in receivables	(3,965)	(171)
Decrease in inventories	-	84
	(1,678)	41
Net cash inflow from operating activities	25,186	23,125

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

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, 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 and residual values for depreciation expense (note 15)
- Deferred taxes (note 8)

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 judgement and includes consideration of relevant qualitative and quantitative factors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

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.

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 Statement of Cash Flows 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 Statement of Cash Flows.

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
- NZ IFRS 15 Revenue from Contracts with Customers

	Notes	2017 \$'000	2016 \$'000
4. REVENUE			
Port operations		86,649	72,641
Property operations	16	30	12
Operating income		86,679	72,653

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 INCOME AND EXPENSES

Asset retirement expenses		143	-
Loss on sale of property, plant & equipment		217	20
Fair value gain on investment property	16	(474)	(10)
Other (income) and expenses		(114)	10

Included within other operating expenses are:

Auditor remuneration - audit fees		106	106
Directors' fees		308	297
Operating leases		413	200

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.

6. FINANCIAL INCOME AND EXPENSES

Interest income		(6)	(4)
Finance income		(6)	(4)

Interest expense on borrowings		4,156	4,456
Less interest capitalised to property, plant & equipment		(185)	(268)
Finance expenses		3,971	4,188

Net finance costs		3,965	4,184
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017 \$000	2016 \$000
7. INCOME TAX		
Income tax on the surplus for the year at 28%	6,244	4,462
Adjustment to prior year tax	(584)	(5)
Tax effect of non-deductible items	67	14
Tax effect of non-assessable items	(133)	(3)
Income tax expense reported in the income statement	5,594	4,468

The income tax expense is represented by:

Current tax	6,397	3,141
Deferred tax	(803)	1,327
Income tax expense reported in the income statement	5,594	4,468

8. DEFERRED TAX LIABILITY

Balance 1 October	(18,203)	(17,757)
Adjustment to prior year provision	584	6
Deferred portion of current year tax expense	220	(1,327)
Amounts credited and charged direct to equity	(4,263)	875
Balance 30 September	(21,662)	(18,203)

Deferred tax is represented by:

Property, plant & equipment	(9,769)	(10,869)
Fair value losses on derivatives	1,382	2,084
Revaluation of sea defences	(13,864)	(9,943)
Other	589	525
	(21,662)	(18,203)

Imputation credit account

Balance 30 September	20,225	19,113
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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 neither accounting nor 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.

Deferred tax assets and liabilities are measured based on the tax consequences that follow from the manner of their expected recovery or settlement, the determination of which requires the application of judgement and estimates. Deferred tax liabilities are not recognised for fair value adjustments to land, including the estimated residual portion of revalued sea defence assets and investment properties, as their value is deemed to be recoverable through eventual sale. Whether the residual portion of revalued sea defence assets are non-depreciable and recoverable through eventual sale is a significant judgment in the determination of deferred tax balances.

	2017 \$000	2016 \$000
2017 interim dividend paid - 33.34 cents per share (2016: 19.89 cps)	7,001	4,177
2016 final dividend paid - 17.61 cents per share (2015: 17.61 cps)	3,699	3,699
	10,700	7,876

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

21,000,000 ordinary shares (2016: 21,000,000 shares)	21,000	21,000
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All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Hedge reserve

	(3,554)	(5,360)
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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

	71,077	62,008
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The revaluation reserve relates to the revaluation of the port sea defences.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017



	2017 \$000	2016 \$000
11. TRADE AND OTHER RECEIVABLES		
Trade receivables	8,966	6,596
Accruals and prepayments	2,925	1,33
	11,891	7,927

The aging of trade receivables at reporting dates is set out below:

Not past due	7,238	5,087
Past due 0 - 30 days	1,295	1,429
Past due 30 - 60 days	158	22
Past due > 60 days	275	58
	8,966	6,596

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	5,356	2,297
Trade accruals	2,190	1,448
Employee entitlement accruals	3,637	3,460
	11,183	7,205

The accounts payable carrying value is equivalent to fair value.

Accounting policies:

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

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.



2017
\$000

2016
\$000

13. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Balance at beginning of year	356	364
Additional provision made	81	67
Amount utilised	(66)	(75)
Balance at end of year:		
Non-current	371	364

Accounting policies:

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.

14. INTANGIBLE ASSETS

	Computer Software	Computer Software
Cost		
Opening cost	6,057	4,980
Additions	273	1,077
Closing cost	6,330	6,057
Accumulated amortisation		
Opening balance	4,146	3,756
Amortisation for the period	531	390
Closing balance	4,677	4,146
Closing net book value	1,653	1,911

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

FOR THE YEAR ENDED 30 SEPTEMBER 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Port Land	Sea Defences	Site Improvements
Cost or valuation			
Opening cost/valuation 2015	34,409	76,527	56,683
Additions	-	185	891
Transfers to income statement	-	-	-
Transfers/disposals	-	-	-
Closing cost/valuation 2016	34,409	76,712	57,574
Additions	4,246	-	1,322
Revaluations	-	10,999	-
Transfers/disposals	-	-	-
Closing cost/valuation 2017	38,655	87,711	58,896
Accumulated depreciation and impairment			
Opening balance 2015	-	978	17,119
Depreciation	-	326	1,690
Impairments	-	-	-
Disposals	-	-	-
Closing balance 2016	-	1,304	18,809
Depreciation	-	326	1,716
Impairments	-	-	-
Disposals	-	-	-
Revaluations	-	(1,630)	-
Closing balance 2017	-	-	20,525
Closing net book value 2016	34,409	75,408	38,765
Closing net book value 2017	38,655	87,711	38,371

During the year, the Company borrowed funds for the acquisition of new property, plant and equipment. Interest was capitalised during the acquisition period of \$185,000 at rates of 4.03% to 4.61% (2016: \$268,000).

<i>Wharves & Jetties</i>	<i>Buildings</i>	<i>Plant & Equipment</i>	<i>Dredging</i>	<i>Work in Progress</i>	<i>Total</i>
44,801	26,426	89,978	13,514	14,660	356,998
-	831	15,408	1,377	10,667	29,359
-	-	-	-	(327)	(327)
-	-	(3,502)	-	(19,768)	(23,270)
44,801	27,257	101,884	14,891	5,232	362,760
389	971	2,428	-	21,523	30,879
-	-	-	-	-	10,999
-	-	(1,517)	-	(13,577)	(15,094)
45,190	28,228	102,795	14,891	13,178	389,544
7,516	8,430	31,113	3,190	-	68,346
569	661	4,909	688	-	8,843
-	-	691	-	-	691
-	-	(3,238)	-	-	(3,238)
8,085	9,091	33,475	3,878	-	74,642
575	703	6,085	689	-	10,094
-	52	385	-	-	437
-	-	(1,189)	-	-	(1,189)
-	-	-	-	-	(1,630)
8,660	9,846	38,756	4,567	-	82,355
36,716	18,166	68,409	11,013	5,232	288,118
36,530	18,382	64,039	10,324	13,178	307,189

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Sea defences were revalued to fair value as at 30 June 2017 by AECOM New Zealand Ltd. The valuation has been prepared on a depreciated replacement cost basis and in accordance with the NZ Infrastructure Asset Valuation and Depreciation Guidelines published by the NAMS group of IPWEA and Public Benefit Entity International Public Sector Accounting Standard 17.

The valuation is subject to assumptions and judgements which materially affect the resulting valuation. Such factors include replacement quantities and unit values, the condition and performance of assets, estimated total and remaining effective lives of 70 to 156 years and 5 to 62 years, respectively, and estimated residual values of 20% of replacement cost. Other inputs incorporated into the valuation process include Statistics NZ Indices and an allowance for project on-costs of 10-12%.

The fair value measurement has been categorised as a Level 3 fair value based on inputs which are not based on observable market data (refer to note 21 for the fair value measurement hierarchy).

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 and impairment. This is the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service.

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

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 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 following main classes of property, plant and equipment are depreciated on a straight-line basis and their useful lives are:

	Years
Site Improvements	10-50
Vehicles, Plant and Equipment	3-25
Floating Plant	30
Maintenance Dredging	8
Wharves & Jetties	10-80
Buildings	10-60
Sea Defences	100-200

Depreciation on crane assets is calculated on a unit-of-production basis with estimated useful lives of 33,000-36,000 operating hours. Previously, crane assets were depreciated on a straight-line basis over 20 years.

The estimated useful lives of mobile container handling plant were amended to 9-15 years from 10-15 years, increasing depreciation expense by \$0.7m in the period.

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

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017 \$000	2016 \$000
16. INVESTMENT PROPERTIES		
Balance at beginning of year	2,860	2,850
Additions	3,951	-
Gain from fair value adjustments	474	10
Balance at end of year	7,285	2,860

Investment properties were independently valued at balance date by a registered valuer with relevant experience of the property type and location.

17. LOANS AND BORROWINGS

Bank credit facilities	83,600	79,700
Capitalised loan costs	(29)	-
	83,571	79,700

During the period, the Company amended its Westpac New Zealand Ltd multi-option facilities to an amount of \$65m and expiry date of 31 December 2019. Also, the Company entered into a new \$42.5m facility agreement with ASB Bank Limited, expiring 31 October 2018. The Westpac 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 dates. Security for facilities with banks 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.

Accounting policies:

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.

2017
\$000

2016
\$000

18. INVESTMENT IN JOINT VENTURE

Investment in joint venture	834	925
------------------------------------	------------	------------

Movements in the carrying value of joint venture

Opening balance	925	694
Additions	50	270
Share of recognised revenues and expenditure	(9)	(39)
Provision	(132)	-
Balance at end of year	834	925

Summarised financial information of joint venture

Assets	3,239	2,810
Liabilities	(342)	(35)
Net assets 100%	2,897	2,775
Port of Napier Limited share (33.33%)	966	925
Provision	(132)	-
Balance at end of year	834	925

Revenues	226	57
Net loss after tax	(28)	(117)
Port of Napier Limited share (33.33%)	(9)	(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

FOR THE YEAR ENDED 30 SEPTEMBER 2017

2017
\$000

2016
\$000

19. RELATED PARTY TRANSACTIONS

Transactions with owners

Related Party	Nature of Transactions	Value of Transactions	
Hawke's Bay Regional Council	Rates, levies & resource consents	4	4
	Council services	13	18
	Subvention payment	5	4
	Consultancy contribution	1	2
Hawke's Bay Regional Investment Company	Dividends	10,700	7,876
	Subvention payment	-	127

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	2,617	2,257
Termination benefits	450	-
	3,067	2,257

2017	2016
\$000	\$000

20. COMMITMENTS & CONTINGENCIES

Capital expenditure commitments

At balance date there were commitments in respect of contracts for plant capital expenditure totalling \$1,514,000 (2016: \$2,230,000).

Operating lease commitments

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

Payable within one year	232	11
Between one and two years	232	4
Between two and five years	670	-
Over five years	300	-
	1,434	15

Contingent liabilities

There were no material contingent liabilities at balance date (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017



21. 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:

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.

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

Contractual maturity analysis

2017

Trade and other payables

Bank borrowings

Interest rate swaps

Forward exchange contracts

2016

Trade and other payables

Bank borrowings

Interest rate swaps

Forward exchange contracts



Credit risk

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

<i>Carrying Amount</i>	<i>Cash flows To Maturity</i>	<i>Less than 1 Year</i>	<i>1 - 2 Years</i>	<i>2 - 5 Years</i>	<i>More than 5 Years</i>
\$000	\$000	\$000	\$000	\$000	\$000
5,356	5,356	5,356	-	-	-
83,571	88,298	2,433	25,523	60,342	-
4,932	5,095	671	554	1,986	1,884
4	1,315	1,315	-	-	-
93,863	100,064	9,775	26,077	62,328	1,884
2,297	2,297	2,297	-	-	-
79,700	88,261	2,431	85,830	-	-
7,433	8,336	1,362	1,417	4,071	1,486
12	913	913	-	-	-
89,442	99,807	7,003	87,247	4,071	1,486

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

Market risk

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

Interest rate risk

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

	2017 \$000	2016 \$000
Less than 1 Year	24,000	6,000
1 - 2 Years	20,000	24,000
2 - 3 Years	20,000	20,000
Greater than 3 Years	64,500	84,500
	128,500	134,500

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	-	-	2,597	(2,778)
30 September 2017	-	-	2,597	(2,778)
Interest rate swaps	-	-	3,219	(3,452)
30 September 2016	-	-	3,219	(3,452)

Currency risk

The Company undertakes transactions denominated in foreign currencies from time to time and exposure in foreign currencies arises 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

	<i>NZD Amount</i>	<i>Currency Amount</i>	<i>Less than 1 Year</i>
2017	\$000	\$000	\$000
EUR	1,315	843	843
2016			
EUR	836	534	534
CAD	59	49	49
USD	18	13	13
	913		

Foreign exchange sensitivity analysis

At the 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
30 September 2017	-	-	(118)	144
30 September 2016	-	-	(82)	100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	2017	2016
	\$000	\$000

Credit facilities

At balance date the Company had bank facilities of:

Overdraft	1,000	1,000
Credit facilities	107,500	110,000
Total	108,500	111,000

At balance date the utilisation of bank facilities was:

Credit facilities	83,600	79,700
Total	83,600	79,700

Financial assets and liabilities

Loans and receivables at amortised cost

Cash	231	459
Receivables	8,966	6,596
Total financial assets	9,197	7,055

Financial liabilities at fair value

Interest rate swaps	4,932	7,433
Forward foreign exchange contracts	4	12
	4,936	7,445

Financial liabilities at amortised cost

Trade payables	5,356	2,297
Loans	83,571	79,700
	88,927	81,997
Total financial liabilities	93,863	89,442

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

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 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. The Company has met all covenants throughout the reporting period.

FINANCIAL SUMMARY


Statement of Corporate Intent Target

Total cargo (million tonnes)	
Container volumes (TEU)	
Revenue (\$m)	
Operating profit* (\$m)	
Net profit after tax (\$m)	
Dividends (\$m)	
Capital investment (\$m)	
Net debt (\$m)	
Debt to debt plus equity %	20-40%
Interest coverage ratio	>3 times
Return on operating assets %**	13%
Return on shareholder's funds %***	8%

* Profit from operating activities before interest, tax, depreciation and amortisation, other income and expenses, and joint venture results

** Operating profit divided by average non-current assets used in operations

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



2017	2016	2015	2014	2013	2012
4.75	3.92	4.07	4.11	3.99	3.71
288,444	257,380	256,438	220,048	206,272	204,065
86.7	72.7	72.1	67.0	62.1	60.3
37.4	30.4	29.7	29.3	27.0	25.4
16.7	11.5	12.9	13.4	11.8	11.1
10.7	7.9	7.4	7.0	6.1	5.9
18.7	10.3	35.1	19.2	20.9	9.5
83.3	79.2	84.3	62.8	60.1	51.2
29%	30%	31%	25%	25%	23%
9.0	6.8	6.5	7.9	7.7	6.6
12.5%	10.5%	10.8%	11.5%	11.1%	12.8%
8.5%	6.1%	7.0%	7.4%	6.8%	8.1%

INDEPENDENT AUDITOR'S REPORT

To the readers of Port of Napier Limited's Financial Statements for the year ended 30 September 2017

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

OPINION

We have audited the financial statements of the company on pages 10 to 39, that comprise the statement of financial position as at 30 September 2017, 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 2017; 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 20 November 2017. This is the date at which our opinion is expressed.

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

BASIS FOR OUR OPINION

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

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

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

OTHER INFORMATION

The Board of Directors are responsible on behalf the company for the other information. The other information comprises the information to be included in Parts 1 and 2 of the Annual Report, other than the financial statements and auditor's report. We obtained the other information contained in Part 2 of the Annual Report prior to the date of this auditor's report and we expect to obtain Part 1 of the Annual Report after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

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

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

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENCE

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

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



SIMON BROTHERTON

ERNST & YOUNG

CHARTERED ACCOUNTANTS

ON BEHALF OF THE AUDITOR-GENERAL

AUCKLAND, NEW ZEALAND

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on behalf of the Auditor-General

