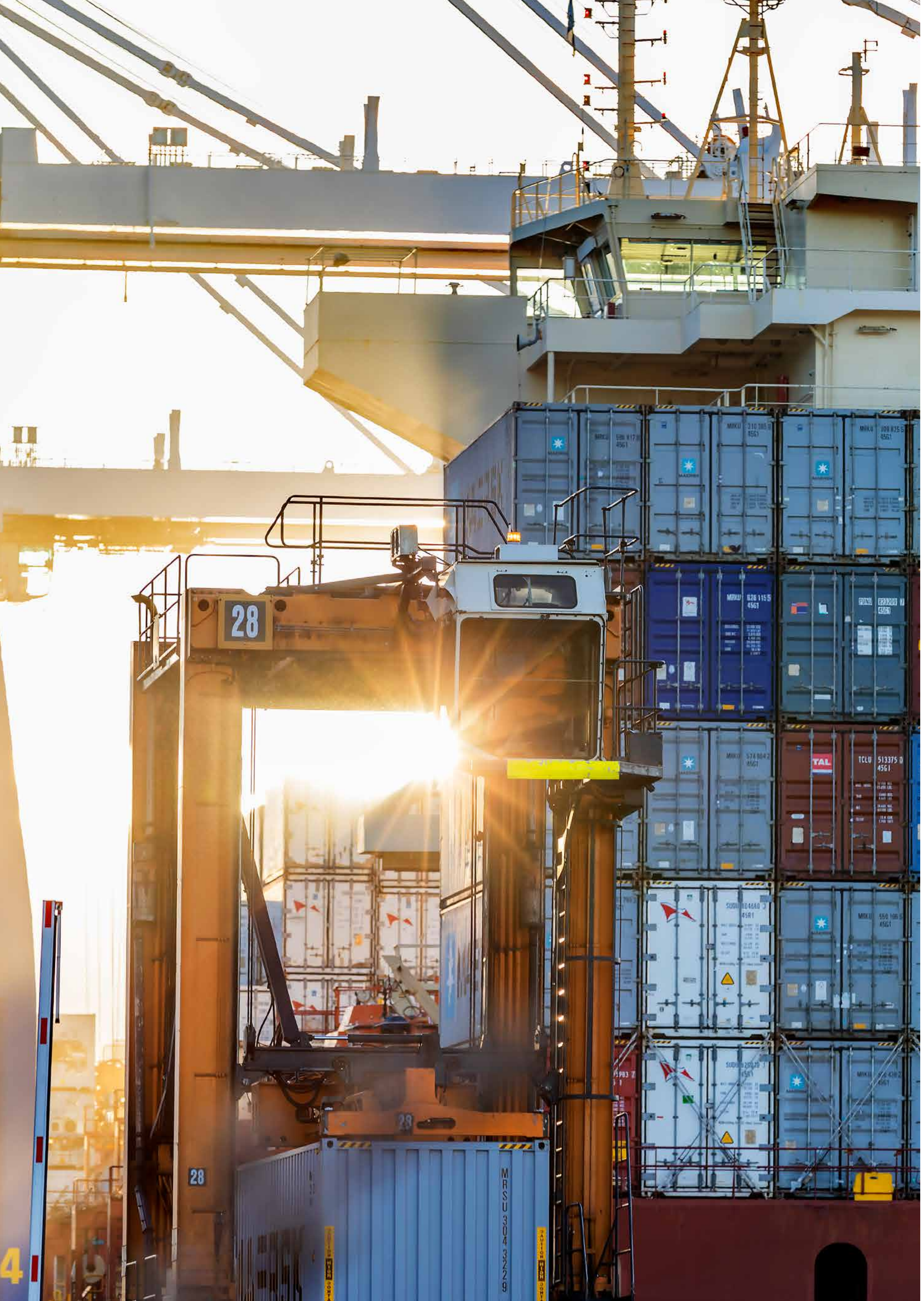
PORT OTAGO

ANNUAL REPORT 2019



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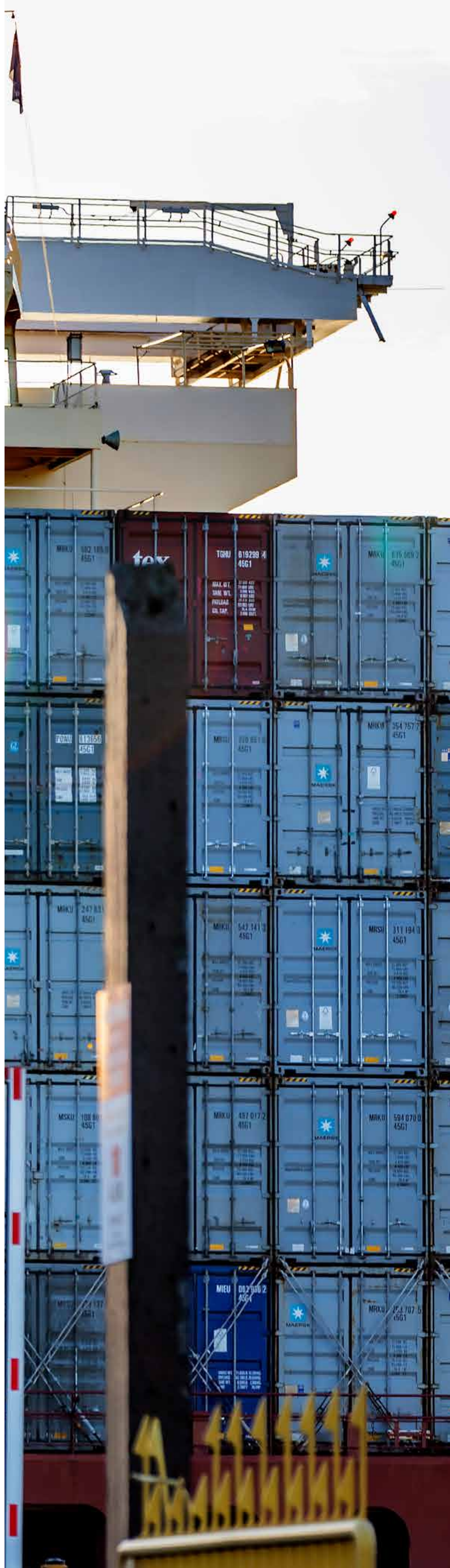


Overview of Group Results

	2019 $million	2018 $million
Revenue	121.7	109.4
Operating profit before income tax	35.3	29.9
Profit for the year	49.3	43.9
Total assets	602.3	583.2
Shareholders' equity	508.1	468.1
Equity ratio	84%	80%
Trade		
Container throughput (teu)	208,600	204,700
Bulk cargo volume (000's tonnes)	1,764	1,686
Container and bulk cargo vessel arrivals	458	442
Otago cruise vessel arrivals	115	87

Full year review from the Chair and Chief Executive

Highlights

Highlights for the year include:

- Tax-paid return on average equity of 10.1% with profit of $49.3 million
- Another record log volume with 1.15 million tonnes across the Dunedin and Port Chalmers wharves
- Cruise vessel arrivals increase to 115 calls from 87 last season
- Container volumes up 2% to 208,600 teu
- Te Rapa Gateway land sales of $22.7 million
- Completion of the Next Generation project
- Shareholders' equity exceeds $500 million

Financial results

A tax-paid profit of $49.3 million was achieved by the Port Otago Group for the year ended 30 June 2019, up 12% on last year's $43.9 million profit. Increased port operations revenue, from bulk cargo wharfage, cruise vessels and container services plus increases in investment property rentals, has lifted core operations revenues. Sales of $22.7 million of developed land from the Te Rapa Gateway development in Hamilton was recorded, up from $19 million last year.

Excluding the cost of sales of investment property inventories, operating expenses increased by 8% from $64.8 million to $70.2 million, driven by the increased activity through the port. Before unrealised revaluations and tax, the group operating profit was up $5.4 million on the previous year to $35.3 million.

Shareholder equity increased to $508 million with an equity ratio of 85% at June 2019. Bank borrowings reduced to $56 million, down from $78 million last year.

Port operations

Overall container volumes increased by 2% with a significant increase in tranship containers, as shipping lines hubbed containers through Port Chalmers to link with services to international export markets. Direct exports and imports of dry and reefer containers were down 4%, due to reduced volumes for processed timber customers and customers using cheaper alternative supply chains.

Bulk cargo volumes of 1.8 million tonnes were up 5% on last year with logs increasing 8% to another record volume of 1.15 million tonnes. This is the second year in a row that log volumes have exceeded 1 million tonnes.

Container and bulk cargo vessel arrivals increased to 458 calls from 442 last year, plus an additional 28 cruise vessels calling, for a total of 115 cruise vessels in the 2018/2019 season. Of these cruise vessels, 77 were piloted by Port Otago through Fiordland.

An estimated 238,000 cruise passengers arrived during this season from the 115 cruise ships which berthed at Port Chalmers and Dunedin, second only to Auckland in passenger numbers. Statistics New Zealand estimates that cruise ship spending in Dunedin of $60 million increased 26% from the previous season, a great result driven by the use of the $23 million investment in the extended multi-purpose wharf, enabling a real boost to the Dunedin economy. Planning is underway to cater for the upcoming season with 130 cruise ship bookings received, a 13% increase on the last season.

The EBIT from port operations was up 21% from last year to $15.5 million, with the previous year including a $2.9 million provision for the cost of removing all asbestos from Port Otago sites.

Chalmers Properties Limited

Chalmers Properties Limited (CPL) provided an EBIT of $22 million made up from investment property rentals, sales of land from the Te Rapa Gateway development and gains from sales of Dunedin ground leases which met the current divestment strategy, where the sale advances development and employment opportunities in Dunedin.

The annual revaluation of the investment property portfolio provided an unrealised gain of $22.8 million with Dunedin properties increasing $9.8 million, Auckland $10 million and Hamilton $3 million. The carrying value of the investment property portfolio of $336 million includes $166 million in Dunedin, $149 million in Auckland plus nine tenanted warehouses and undeveloped land at Te Rapa Gateway, Hamilton with a value of $21 million. The Te Rapa Gateway development has an additional $29 million of developed lots, land under development and warehouses under construction. Developed lots will either be sold or held as long term investment properties depending on demand and tenant commitments.

Keeping our people safe

In the last 12 months, the Port Otago team has completed working through our critical risks using bowtie methodology along with a programme of work to eliminate or mitigate risks that can cause serious harm to our team. This significant piece of work has established priorities for deployment of resources and capital, the focus of our Runanga and the Health and Safety sub-committee of the Board.

We were pleased to see the investment of $500k in the new rostering system (TimeTarget) go live in May 2019, delivering real-time insight into individual rosters, patterns and building up history to enable fatigue rules and algorithms to provide further insight.

Lag indicators reflected a reduction in the Total Recordable Injury Frequency Rate of 25.7 compared to 36.7 the previous year. We expect this level to reduce further over time as we focus on lead initiatives. The severity of the incidents reduced significantly which was pleasing as the majority of the incidents were slips, trips and strains consistent with an ageing workforce undertaking physical work.

Being a good neighbour

The year has been dominated by the arrival of the new Rio class ships into Port Chalmers around November 2018. Whilst the Rios have increased reefer connections for our export customers, are more fuel efficient than the previous vessels, draw 13.5 metres fully laden reducing the need for further dredging and have improved safety features for our team, they emit a low frequency noise that has impacted our neighbours. As the vessels progressively entered service into the New Year, it was evident that all vessels emitted similar noise and immediate mitigation steps were taken. The mitigation actions have been supported by Maersk and we have limited the Rio to one night in Port and shifted its arrival from the weekend to Monday morning, but we acknowledge the impact on our neighbours.

Port Otago and the Noise and Environment Liaison Committee have been working with noise experts Marshall Day and Maersk to develop an engineering plan to eliminate the noise at source. We are confident that Maersk will deliver on this plan over the next six months.

The Company adopted the 2GP (2nd Generation District Plan) recommendations and appointed an Independent Chair, Mark Cameron, to the Noise and Environment Liaison Committee meeting. We look forward to working with Mark and members of the community to focus on community projects and provide input into company initiatives.

Next Generation

The opening of the 135 metre extension of the multi-purpose wharf in October 2018 completes the Next Generation project, a seven year focus for the Board to enable Port Chalmers to cater for the next generation of vessels. With a 14 metre channel, in-house modern dredging plant provides the ability to deepen if required to support larger vessels up to 15 metres at any stage through to 2033. The multi-purpose wharf at 431 metres long can cater for the largest container and cruise vessels visiting the New Zealand coast. Along with modern main container and log berths, this new wharf enables increased utilisation from the cruise/log and container trades. Combined with three tugs, Port Otago is open for bigger ships and looks forward to welcoming the next generation of cruise vessels into Port Chalmers. We would like to acknowledge the previous Board Members and Chief Executive for their foresight.

Dividends

Dividends of $8.45 million, including a special dividend of $0.75 million, have been paid or declared for the year ended 30 June 2019. This compares to total dividend payments of $9.0 million last year which included a special dividend of $1.5 million.

Our People

In a year where container networks have been disrupted by events in Australia and Auckland, constant changes in planning/vessel calls have been a real challenge for our team to manage and deliver for our customers. On behalf of the Board, we acknowledge the contribution of our team who has improved safety, delivered on projects and adapted to the challenging season.

Directors

As noted in the interim report, Ed Johnson retired from the Board in December after 16 years' service as a Director. The Board has welcomed Jane Taylor as a Director who brings significant governance experience following Ed's retirement.

Looking ahead

Port Otago volumes are dominated by export cargos which rise and fall on the back of the farming sector in Otago and Southland and the growing season. We expect softer container volumes for the year ahead as global conditions slow and as international shipping lines optimise their networks to eliminate waste therefore reducing costs. We continue to look for efficiencies in supply chains to assist our customers to invest in the infrastructure to support the increasing size of vessels calling in New Zealand.

Recent pricing pressures in the international log markets are likely to impact log volumes and we expect lower levels of activity from the sector in the coming year. Offsetting this reduction, the growing cruise sector will bring 130 ships to Dunedin this cruise season, along with approximately 275,000 passengers visiting Dunedin, contributing an estimated $70 million to the local economy.

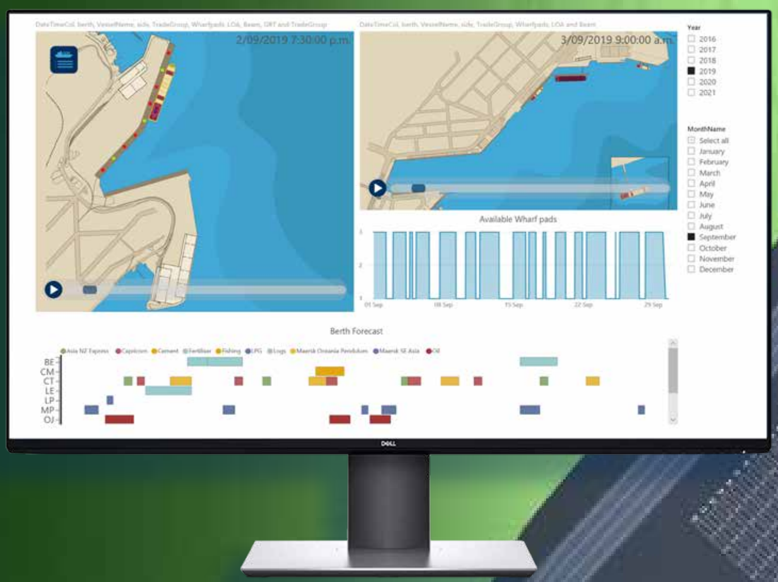
Chalmers Properties is well positioned to deliver increased earnings on the back of new industrial investments in Hamilton along with realising further sales of developed land at Te Rapa Gateway.

David Faulkner
Chairman

Kevin Winders
Chief Executive

INVESTING FOR THE FUTURE

PowerBI – business analytics



International Terminal Solutions – real-time tracking and reporting of mobile plant

TimeTarget – workforce planning

PORT OTAGO

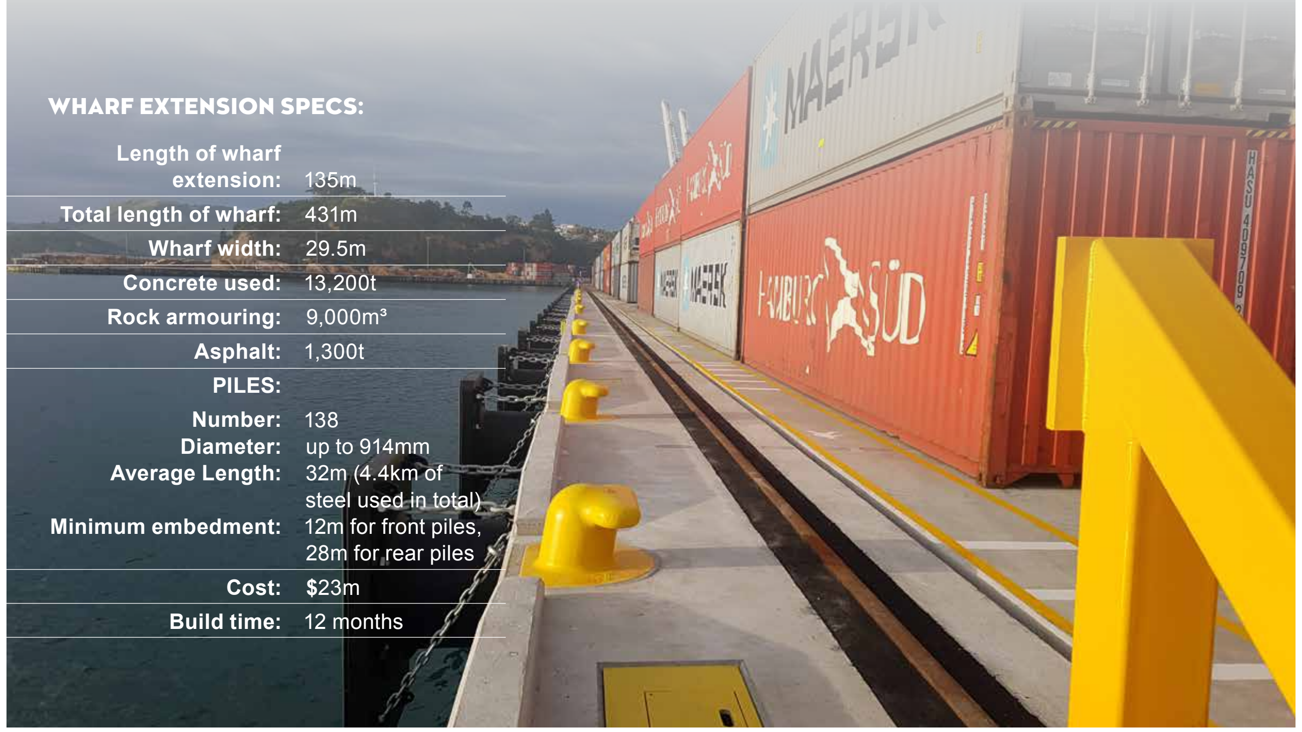
MULTIPURPOSE WHARF COMPLETED

The $23 million wharf extension project was completed during the 2018/19 year. The completed wharf allows us to cater for our log, container and cruise ship customers across the three berths.

About 2,000 Port Chalmers locals, customers and staff attended the wharf's official opening day on Otago Anniversary Day (25 March) and enjoyed a genuine family day out, complete with tug rides, live music, food trucks and fishing competitions.

The 135m extension to the existing wharf increased the total length to 431m. HEB Construction completed the project on budget and five weeks ahead of schedule. Significantly, there was only one medical treatment incident in 75,000 recorded man hours.

About 2,000 people attended the wharf's official opening in March, including young Grayson King, pictured with Port Chalmers volunteer fireman Glenn Holland.



WHARF EXTENSION SPECS:

Length of wharf extension:	135m
Total length of wharf:	431m
Wharf width:	29.5m
Concrete used:	13,200t
Rock armouring:	9,000m³
Asphalt:	1,300t
PILES:	
Number:	138
Diameter:	up to 914mm
Average Length:	32m (4.4km of steel used in total)
Minimum embedment:	12m for front piles, 28m for rear piles
Cost:	$23m
Build time:	12 months

New telehandler impressing

In February, Port Otago unwrapped a new $390,000 rotating telehandler that has taken on the work of three now retired machines. Maintenance Manager Matt Eves: "We had an ageing fleet of ancillary equipment – a large heavy forklift, mobile crane and a tow truck – and wanted one machine that could replace them all. We also previously hired cranes to set up and take down the cruise ship gangways. With this machine, we can now do this ourselves." The telehandler has 360° rotation, a 5T lift capability and 21m reach. From a safety perspective, the telehandler is programmed so operators cannot push it beyond its limits.

EXPONENTIAL GROWTH IN CRUISE VISITS

Port Chalmers' popularity as a port of call for the cruise trade continues to grow.

A record 115 cruise ships passed through Taiaroa Heads during the 2018/19 season – up 32% on 2017/18. Next summer is bigger still, with 130 ships booked.

And the trend looks set to continue, with New Zealand cruise passenger numbers growing by 13% per annum, much faster than the rate of growth in the cruise industry globally.

A focus on customer experience

During the 2018/19 year, two new positions were created to ensure cruise ship passengers had the best possible experience of passing through Port Chalmers.

Cruise Manager Carolyn Bennett and Coordinator Michelle Simpson both have extensive backgrounds in event management and skills suited to hosting up to 6,000 visitors through the Cruise Terminal daily.

Infrastructure and logistics

With 20 double cruise days at Port Chalmers – i.e. two cruise ships docking in a single day – the multipurpose wharf came into its own, comfortably accommodating even the largest of cruise liners.

Improvements were made to the port's traffic management plans to facilitate the coming and going of up to 80 buses per day, as well as connections to the Taieri Gorge Train and the multitude of private tour operators.

Fiordland cruise

As a UNESCO World Heritage site, many cruise visitors consider Fiordland to be the jewel in the New Zealand crown. This was reflected in the increasing number of cruise visits into Fiordland during the 2018/19 season – up 32% on the previous season.

Port Otago pilots the majority of cruise vessels in and out of the isolated fiords.

To ensure reliability, a company-owned pilot launch is permanently based in Fiordland during the cruise season.

KEY STATS 2018/19 SEASON

Port Chalmers and Dunedin Wharves:

115 Ships (11 into the Upper Harbour's Dunedin Wharf)

More than 229,000 passengers (179,000 in 2017/18 – growth of 28%)

More than 104,000 crew

Fiordland:

77 Ships

1 ship piloted to Stewart Island

Pilots of the future

Port Otago has employed three trainee pilots, so we continue providing high levels of professionalism across our Otago and Fiordland piloting operations.

With some of the piloting team nearing retirement, proactive succession planning was required. One trainee pilot has started and all three will be in place by March 2020.

Each new recruit is attending a one-week manned model course in France. The pilots operate 1:5 scale models, which enhance their training around ships' pivot points under different scenarios. It is also an opportunity to practise manoeuvres with the aid of anchors, which they cannot practise in real life.

Back in the Otago Harbour, the trainee pilots follow a structured Programme and Proficiency Plan, which requires a minimum of 125 transits in Otago Harbour under the guidance of a licenced pilot. They are then peer reviewed and sit both a written and oral exam with the Chief Pilot and Harbour Master, before obtaining their Maritime New Zealand pilot licence grade one (of four levels).

Complementing the incoming pilots is the transitional retirement of some established pilots. This win-win scenario sees these pilots working over the port's busy summer season and enjoying winter off, when pilot demand is low.

Premraj Pillai (pictured with Chief Pilot Hugh Marshall) is one of three new trainee pilots joining the Port Otago team. Premraj was based in Auckland for nine years, working for New Zealand Coastal Shipping – a job which took him into various New Zealand ports. He gained his F.G. Master Licence 18 months ago and identified becoming a pilot as his next career move. "It's a challenging and dynamic job. There is no room for error and you're always dealing with different conditions. Otago's pilots are a very good team of skilled and lovely people. I used to think 'if I want to train as a pilot, this is the port where I'd want to do it'."

HarbourCold merges into Port operations

Port Otago merged the Dunedin wharf-side coldstore facility HarbourCold into port operations, with Sealord signing a long term customer agreement with Port Otago.

HarbourCold services fishing vessels and operates a container packing and warehousing service for export clients.

The business and its team have been integrated into Port Otago's overall coldstore operations, with Mark Rowley appointed Dunedin Bulk Port Manager.

The X and Y Wharves in the Upper Harbour are now fully dedicated to fish exports, supported by coldstore space within the nearby ENZA store. To accommodate increased demand for coldstore facilities by non-fishing clients, Port Otago has leased storage in Kaikorai Valley, increasing overall capacity by 25%.

Other changes include the installation of safety barriers to separate man from machine, and improved inventory management and real-time reporting for customers.

Log volumes up 8%

Support from our four forestry owning customers saw an 8% increase in log volumes through Port Otago during the 2018/19 year.

Log handling is split approximately 70/30 across Port Chalmers and Dunedin Bulk Port wharves. A re-configuration of the company's Dunedin Bulk Port during the year increased the useable footprint by approximately 35%, while also improving safety and product flow.

The Dunedin log yard received a $1m upgrade that included new seal, which makes for a safer point of entry and exit.

SAFETY INITIATIVE

UPGRADE OF SIDE LOADER FLEET

Port Otago has upgraded its side loader fleet, investing in two new Hyster machines. These side loaders come with installed fire suppression units, along with other safety features.

A side loader fire in March 2018 resulted in an employee injuring himself while jumping from the machine. He is being supported on his recovery path and has recently returned to full duties. The machine itself was written off.

All of the company's side loaders are now being retro-fitted with suppression units that douse the engine bay in a foaming agent, should the automated trigger be activated.

There are also fire suppression units across the company's marine fleet and units are being fitted to other large machinery identified as a potential fire risk. Any new equipment ordered is arriving with fire suppression units as standard.

NEW FORKLIFTS DOUBLE PRODUCTIVITY

Port Otago began leasing two 12T forklifts in November 2018 to enable faster unloading of rail freighted goods. The job used to be carried out by a 7T forklift carrying two pallets; the new machines carry four pallets. GM Supply Chain Deanna Matsopoulos: "The size of the forklifts means we can be more productive with the limited time between trains' arrivals and departures." Safety features include a reversing camera, two forward-facing cameras (to assist with product loading), proximity sensors and a seat sensor.

INNOVATION

UPGRADE OF D SHED DOORS

In June 2019, the three roller doors leading into D Shed were expanded and upgraded to rapid-rise doors at a total cost of $125,000.

D Shed is 31,455m² and used to store Fonterra milk-based products.

By expanding the door dimensions from 3.5m by 4.5m wide and high, to 6.0m by 5.0m, the D Shed operators can now access the space using 12T forklifts, which decreases the time to unload and move powder from rail into the warehouse.

Container management system introduced

Port Otago's Dunedin Depot has undergone a complete transformation over the past two years.

Dunedin Depot is used to service, clean and store empty containers. It is a busy site, with containers constantly on the move. Visually, the site layout has been reconfigured and tidied, and hard safety barriers installed. But another transformation is less obvious. During 2018/19, a container management system was introduced and the site's capacity has increased from about 1,110teu, to 1,400teu.

Previously, containers were tracked through the site via a paper and people-based system, which worked but did lack efficiency and accuracy. It was also difficult for new staff to understand. The new computer-based container management system means every container movement is now recorded and its specific location on site is known to all staff at any point in time.

Incoming truck drivers use a touch screen to log a container's arrival. From that point, the container is colour coded and works its way through the cleaning and servicing stations, with touch screens in all machinery used to track each physical movement of each container.

The system's records include valuable detail – such as the average clean time for containers – which has been used to refine container flow through the site. It also means that inefficient container movements, such as "digging out a box", can be avoided in advance.

The recent Port Industry Association (PIA) conference was hosted by Port Otago and included a tour of the Port's Dunedin Depot. PIA Executive Jonathan Hulme said that members were impressed at the work and commitment around safety by the depot. "The use of safety systems, segregation and the general tidiness of the site made it a good and safe place to work. Employees spoken to at the depot were proud of their improved operation."

SUSTAINABLE ENVIRONMENT

DREDGING ACTIVITY

For the past five years, Port Otago has carried out quarterly surveys of seagrass bed health in the Lower Harbour to monitor the impact of development dredging.

The surveys show no impact from dredging and that any variation is due to natural influences. With Lower Harbour dredging now back to maintenance level – and the survey's consistent results – data collection has moved to six monthly.

The scientific dataset of five years of reporting is providing opportunities for further analysis to academics and other ports. In this way, we leverage investment and better understand how we can improve the way we interact with the environment.

As part of its Resource Consent, Port Otago also monitors the disposal site, A0, 6km off Taiaroa Head, where dredge material is desposited.

All survey results show no ill effects from dredging. These results are reviewed by the Technical Group, which consists of scientists and other parties with an interest in Port Otago's dredging and disposal project. The group also makes recommendations on additional monitoring, where relevant.

Community and cultural overview

The Manawhenua Group of local hapu, iwi and Manawhenua representatives – Te Rūnanga o Otakou, Kati Huirapa Runanga ki Puketeraki, East Otago Taiapure Management Committee and Te Rūnanga o Moeraki – was formed in 2013 as part of the Lower Harbour development dredging project. Its members review reports on development and maintenance dredging and take a cultural view of the environment. They assist with the design and implementation of the cultural monitoring programme, including the development of cultural health indicators for key species that are of importance to Kai Tahu. They are also involved in making recommendations for changes to the monitoring framework.

Thanks from Port Otago to members of the Manawhenua Group for giving up their time to contribute and oversee our dredging activity.

UPPER HARBOUR ACTIVITY

In October 2018, Port Otago began dredging the Upper Harbour, as part of a deferred maintenance programme.

The Lower Harbour dredging has leveled off at 14 metres for now, which meets current shipping requirements. The dredging team has moved to the Upper Harbour and is busy working from the Islands back to the basin in Dunedin to dredge to our consented level of 8.5 metres. This will allow for easier and safer navigation, as well as allowing oil tankers to arrive carrying more weight than is currently possible.

ROLE OF CITIZEN SCIENCE

University of Otago student Aless Smith recently completed her Master's project, which looked at the value of citizen science for monitoring the impact of dredging on the Otago Harbour.

Citizen science describes projects where the public work alongside professional scientists to collect and analyse data, usually from the natural world.

Aless's project ran over three years and involved 10 schools, about 450 students, 100 teachers and parents, and 23 scientists. The goal was to look at how closely the student and scientist gathered results aligned. Aless found that the students could collect quality data when supported by trained scientists, but that support was essential and simple methods were important.

Aless's thesis was submitted in May 2019 and will form part of the data set Port Otago keeps on harbour health.

PORT HEADING FOR ASBESTOS FREE

Port Otago spent $2.2 million on asbestos removal and building demolition during 2018/19, as it worked towards being asbestos free by 31 December 2019.

The most significantly asbestos-affected buildings – the Fryatt Street sheds – were demolished in March and accounted for about 80% of the total spend.

BACKHOE DREDGING CAPACITY DOUBLED

The TR Healy was purchased for $1.5 million in late 2018 as a second barge. Its addition to the floating plant fleet allows Port Otago to double the speed of its backhoe dredging programme.

The five-year-old aluminium barge works alongside the existing barge Hapuka, the dredge Takutai and the tug Arihi to carry out dredging work in the Otago Harbour.

Port Otago Marine and Infrastructure Manager Sean Bolt says the Takutai fills one barge, while the Arihi tows the other away to be emptied – a 3-6 hour round trip, depending on where Takutai is working in the harbour.

TR Healy has no engines or crew so is made fast to the tug Arihi with a towline and towed out to the dumping grounds and opened via remote control.

TR Healy's specs

Length: 40.2m
Width: 12.5m
Weight: 85 tonnes unladen
Capacity: up to 620m³

INNOVATION

AUTOMATED NOISE MONITORING

Port Otago joined forces with Microsoft to develop an accurate automated noise monitoring and classification programme.

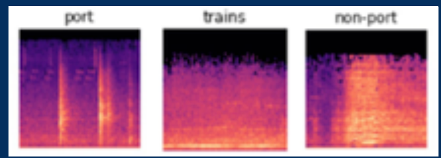
Until recently, recordings from the port's four noise monitors were reviewed and classified manually, but the IT team suggested teaching a computer to do the job.

Microsoft was on board from the outset, while the port IT team passed on a year's worth of noise data to help the software "learn" the difference between port activity and, say, a passing train or barking dog.

The automated system started in May and is 95% accurate. Occasional re-training of the software is required to make sure it stays accurate. It is also an opportunity to classify any new types of noise that emerge.

Microsoft

Port Otago will work with acoustic engineers Marshall Day to maximise the software's potential across the operation. The next step is to extend its ability, so it also recognises frequency and can pick up "third octave" data. This would include the problematic Rio Class ships.



These images represent different types of noises. Noises around the port mostly fall into three categories: Port, Train or Non-Port. Most port noises – such as container set-downs – tend to be abrupt, as indicated by the distinct vertical yellow lines. A train's rumble is recorded as a more consistent and longer pattern. Non-port noises such as dogs barking or car noise look different again.

PROJECT NEXT GENERATION

The Port's ambitious $45 million Project Next Generation infrastructure upgrade is complete.

Thanks to the vision and dedication of many people over the past 10 years, Port Otago now has a 14m harbour channel to Port Chalmers – a depth that can accommodate the larger ships now entering Otago Harbour.

Significantly, as a result of Project Next Generation, resource consents are in place for another 14 years. These consents permit the channel to be further lowered to 15m, should that be required.

NEXT GENERATION
PORT OTAGO

FLAGSTAFF HILL PROJECT COMMENCES

A $2.9 million project to stabilise Port Chalmers' Flagstaff Hill and return Beach Street to its original position began in June 2019.

The 55m hill sits adjacent to Port Otago operations to the south-east and has a long history of slipping. A series of terraces are being formed on the hill's problematic east and north-east faces and approximately 45,000m³ of excess rock and sediment are being removed.

At the project's conclusion, the road, rail and footpath will be realigned to improve safety and in readiness for future operational requirements at the port. The terraces will be planted out in native bush in autumn 2020.

NB: As the annual report went to print, the terracing work was on schedule for its target completion date of September.

Stabilisation work on Flagstaff Hill is on track for a September completion.

NEW $8 MILLION BACKHOE DREDGE JOINS WORKFORCE

Port Otago's $8 million backhoe dredge, the Takutai, arrived in September 2018, after a 10,000 nautical mile journey from France aboard a massive heavy-lift vessel. The Takutai (Maori for coastline) replaced an old bucket dredge, which had reached the end of its working life. The backhoe dredging mechanism is ideal for the fine silt in the Upper Otago Channel and for undertaking the upper and lower channel widening work. This work facilitates larger ships being able to come and go from Port and improves safety. Formerly known as the Kostaldea (Basque for coastline), the dredge was built in 2013 for a project in France, but was only needed for one year's work. She was used for minor projects in the meantime, before the Port Otago purchase.

TAKUTAI SPECS:

Length:	35m
Weight:	730 tonne
Crew:	Two people
Dredging depth:	Down to 19.8m
Propulsion:	None. Takutai has three 13m legs which allow the Takutai to "crab" along the seafloor.
Excavator:	Liebherr P984C hydraulic

OUR PEOPLE, OUR COMMUNITY

KEEPING OUR PEOPLE SAFE

SAFETY INITIATIVE

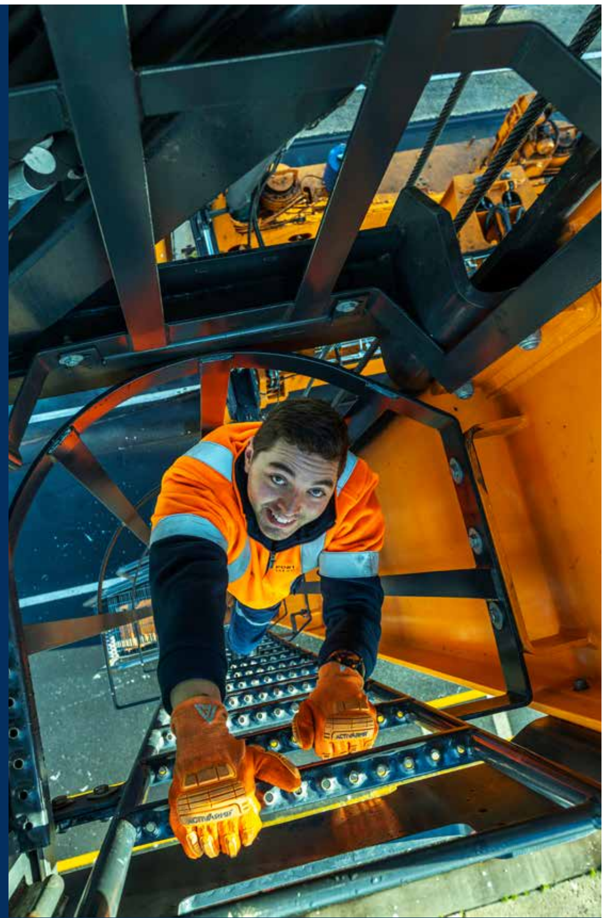
STRADDLE TIP ALERTS

By sharing safety alert data with straddle carrier drivers, Port Otago has significantly reduced one of its highest potential risk areas.

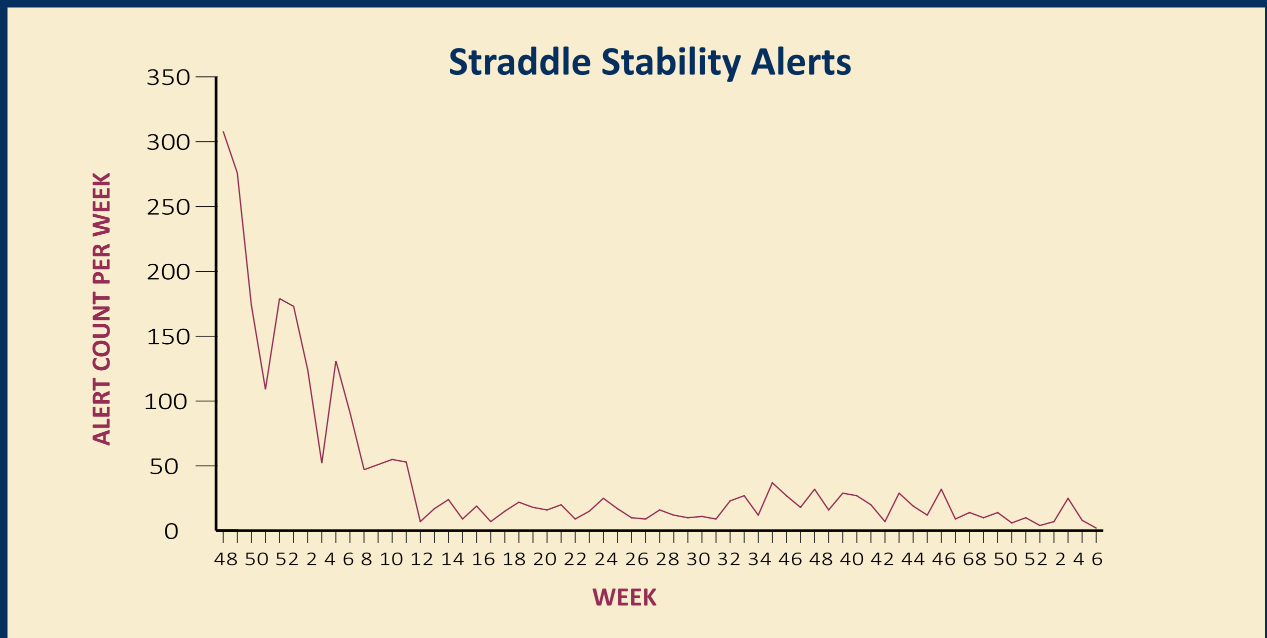
The 60T straddles are top heavy so manufacturer sensors sound an amber tip alert within the cab if a driver exceeds a pre-calculated stability level (based on speed, turning radius and spreader height/weight). If there is no reduction in speed, the tip alert increases to red.

Traditionally, tip alerts were only heard by the drivers themselves. However, in May 2018, Port Otago's 15 straddle carriers were fitted with mobile plant telemetry and tip alerts began to be recorded and shared with the drivers. Within three months, red tip alerts fell from 350/week, to less than 20. Within a year, they are down to less than five. (See graph.)

If a driver records a tip alert in a two-hour driving session, the shift supervisor automatically receives an email alert and the driver is asked to come in for a safety discussion.



Matt Hayward has been a straddle carrier driver at Port Otago for 10 months and not logged a single red tip alert in that time. "I have always been a safety-conscious person and believe maintaining a calm demeanour under pressure is key. It's easy to become overwhelmed by time-sensitive workloads while driving and, once your stress levels rise, critical thinking is compromised." Operations Manager Greg Mitchell says recording and sharing the total number of red tip alerts with the drivers was powerful. "Before, they were only aware of their own red tip alert count and it's not as if people counted how many they got. The collective figure of 350 tip alerts in a single week was a wake up call for everyone – management included."



Reducing the risk of fatigue

As part of ensuring a safer workplace, Port Otago has introduced a new roster system that is designed to reduce staff fatigue and improve transparency around shiftwork.

Port Otago is the first port company internationally to adopt TimeTarget. The software was chosen for its functionality around workforce planning, including the ability to electronically handle shift rosters, timesheets and interface with payroll.

But, ultimately, the system was introduced to manage the risk of staff fatigue. By setting "rules" around, for instance, maximum hours worked within a period or minimum stand-down periods between shifts, TimeTarget provides an automated and efficient basis for rostering.

In time, the software will also allow staff to receive notifications and apply for leave from their smartphones and home computers.

New Dover assessment tool introduced

Assessing the ability of new cargo handlers and forklift operators has been streamlined, thanks to a computer-based psychometric aptitude measurement tool. The tool predicts operator's aptitude for operating heavy machinery with a very high degree of accuracy, based on a database of 30,000 previous tests.

It is a scientifically developed programme that accurately assesses their practical skills. Recruits spend an hour hooked up to a gaming like console, complete with foot pedals.

Dover looks at the basic foundation skills of potential employees to determine if they have the aptitude for further training as a cargo handler or forklift operator at Port Otago. The tool can also be used to test current employees to assess where further training is needed.

Defibrillators now on board all marine vessels

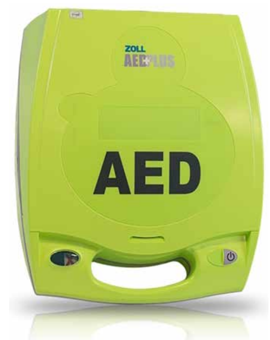
Port Otago has invested $45,000 in 15 defibrillators across its operations and within the immediate community.

Defibrillators – also known as AEDs (Automated External Defibrillators) – are portable battery-operated devices that are safe and easy to use on someone that has suffered a cardiac arrest.

Seven defibrillators are on board the company's marine vessels, six are on shore and two are out in the community – Aramoana township and the Port Chalmers Bowling Club.

With many of the Port's work locations – especially the boats – not readily accessible to the St John Ambulance service, the defibrillators are a practical investment in Port Otago's people and the Port Chalmers and general boating community.

All Port Otago staff have been trained in the use of defibrillators, so in the event of a cardiac arrest involving one of our team or a member of our community, the Port Otago team can assist.



IN OUR COMMUNITY

Port commitment to Harbourside development

In May 2019, Port Otago gifted a slice of Harbourside real estate to the University of Otago to mark the University's 150th anniversary.

The 0.45 hectares of freehold land on Fryatt Street is where the Port's wharf-side sheds sat until March 2019. The site runs 350 metres along the North side of Steamer Basin and is intended as home to the University's Sustainable Futures Initiative.

Port Otago Chairman Dave Faulkner says the multi-million dollar commitment is a practical way to support the University's proposal. "It recognises and celebrates the University of Otago's contribution to the province and throughout New Zealand. The gift is a comfortable fit. The Port has been around as long as the University – just a little longer, in fact. Both are iconic Dunedin institutions that share similar southern values and have actively shaped Dunedin into the city it is today.

"We are also delighted to be supporting the University's research into an area highly relevant to the Port – the very real issues of sustainability, climate change and rising sea levels."

University Vice-Chancellor Professor Harlene Hayne says the substantial gift will enable the university to advance its work on sustainability and contribute towards potential solutions.

SAPERE AUDE 150 YEARS 1869-2019

PORT OTAGO

Te Rauone Beach development progresses

Port Otago is working with the community to restore and develop the Te Rauone Beach and reserve – a site with rich Maori heritage and historical significance for Dunedin.

During the past century, the sea has eroded the beach, causing significant issues for the environment and community. The adjoining reserve is the only public area available to the Ōtākou and the lower Peninsula community and is popular for recreation and viewing ships.

Port Otago is working through the consenting process that will focus on re-instating the beach and its on-going maintenance. Engineering consultants BECA have designed a groyne rock wall configuration that will sustain the beach as much as possible. The Dunedin City Council has come on board and has committed $900,000 over three years to upgrade the reserve and augment the new beach.

Te Rauone Beach Coast Care Committee are thrilled to have a project close to being achieved. "It will provide a tremendous asset and facility for the immediate and wider Dunedin community, as well as for the tourists and future generations.This is a joint project which also includes the Te Rauone Incorporation and our local runanga. We are grateful for the support, understanding, expert advice and planning brought together by all involved to achieve a positive outcome."

The project is scheduled for completion by the end of 2021.

An artist's impression of the Te Rauone Beach reserve and the three groynes that will be built out into the harbour to protect the beach.

A HOME FOR HALO

The Halo Project is a community-based initiative inspired by the success of Orokonui Ecosanctuary. Port Otago has supported the sanctuary for the past three years and is now supporting the Halo Project by housing the team at no cost in its Port Chalmers office.

Halo encourages households and landowners around the sanctuary to trap pests – specifically, possums, rats and stoats – so birdlife can more safely move beyond the predator-proof fence and in to the wider environment.

Project Manager Rhys Millar says the location is ideal – right in the heart of the West Harbour community, opposite the Port Chalmers library – and Halo is grateful for the Port's practical support.

Halo is part of the Predator Free Dunedin network and was initially responsible for 4,000 hectares immediately around Orokonui Ecosanctuary. That area's trapping is now established – with 769 traps and 215 volunteers – so Halo's focus has extended outwards to cover 12,500 hectares from Heywards Point to the edges of North East Valley.

Alongside the community trapping programme, Halo Project also works with primary schools in the area, focusing on environmental and biodiversity education.

Predator Free Operations Manager Jonah Kitto-Verhoef and Project Coordinator Sanjay Thakur prepare traps for Dunedin's predators.

Photo courtesy Kate Tanner

SAYING "THANK YOU" TO OUR COMMUNITY

During the year, Port Otago donated containers to the community, including to Port Chalmers School, Malcam Trust and Maia's Rudolf Steiner School and Kindergarten. Malcam Trust: "We are so grateful to Port Otago. We can now store more bicycles out of the weather, while we get ready to fix them and return them to the community."

PORT SUPPORTS WILDLIFE HOSPITAL

Port Otago is supporting Dunedin's Wildlife Hospital, with the contribution being used towards underwriting a vet nurse salary.

The hospital opened in January 2018 and does not receive any central government funding, instead relying on public and corporate donations.

Hospital Trust and West Harbour Community Board Chair Steve Walker says Port Otago's three-year commitment is especially valuable. "I'm impressed with the port's progressive, forward-looking attitude towards our native flora and fauna, and their desire to advocate for us, beyond their financial donation."

Steve says the hospital is seeing double the number of patients it anticipated. However, that has not compromised outcomes and success rates across all species are world class.

Highlights from the past year include helping the large number of yellow-eyed penguin chicks abandoned on the nest during the 2019 season, and being part of the kakapo recovery programme.

Dunedin-based NHNZ has been filming at the hospital for several months and a five-part documentary series will air on New Zealand television this summer.

Dunedin Wildlife Hospital vet nurses Angelina Martelli (left) and Emily Brewer with an injured albatross. Port Otago is partially underwriting one vet nurse salary for three years.

Maintenance team wins Steptember

Port Otago's maintenance and wash pad teams out walked every other team in New Zealand to place first and second, respectively, in last year's national Steptember fundraising challenge.

Steptember is run by the New Zealand Cerebral Palsy Society and involves teams of four people walking 10,000 steps a day for 28 days straight during the month of September.

Six Port Otago teams registered and their sponsorship efforts raised $2,337 – a figure that was matched by Port Otago. As a result, $4,675 was donated to the Cerebral Palsy Society.

The maintenance team – Ross Woodall, Norman Pulham, Phil Chapman and Dave McDougall – walked 4,178,120 steps. Wash pad was not far behind on 3,852,489 steps. (For context, four people walking 10,000 steps daily for 28 days is 1.12m steps.) Across the six teams, Port Otago's people accumulated 13.6m steps.

Port paints the bay pink

Port Otago's Pink Ribbon breakfast in July 2018 raised $2,183 for breast cancer research.

Forty-five staff gathered at Carey's Bay Hotel for breakfast, raffle buying and auction bidding. Local businesses within Port Chalmers generously donated raffle prizes and Port Otago contributed towards the cost of breakfast, so 100% of proceeds made it to the cause.

Not to be outdone, a Movember barbecue raised $1,225 for prostate cancer, testicular cancer, mental health and suicide prevention.


CHALMERS
PROPERTIES

TE RAPA GATEWAY BUILDS WIN DEVELOPMENT AWARD

Two Te Rapa Gateway Industrial Park designed and built office/warehouses – the Metro and Prochem buildings on Arthur Porter Drive – won a merit award in the CBRE industrial property category at the 2019 Property Council New Zealand national awards. Chalmers Properties General Manager David Chafer describes Te Rapa Gateway as a master-planned industrial development of A-grade offices and warehouses for Hamilton. "The design of these buildings was very well thought out. The offices are placed forward of the warehouse to create a strong physical presence and to enhance accessibility for occupants and natural light into the building." The two buildings sit back-to-back, with a common party wall. Each build is 1050m2 of warehousing and 260m2 of office space.

DEVELOPMENTS' LARGEST BUILDING TO DATE

During the year, Chalmers Properties embarked on a new design/build/lease development for NZ Windows (Waikato) Ltd at 25 Clem Newby Drive. The building is the largest build to date at Te Rapa Gateway. Situated on a 3323m2 site, it comprises 1305m2 of warehouse, 378m2 of office space and a 270m2 canopy.

CHALMERS PROPERTIES' HOLDINGS

Another solid performance

Wholly-owned subsidiary Chalmers Properties Limited continued to be a reliable contributor to the Port Otago Group.

Chalmers Properties aims to grow the yield on its diversified commercial property portfolio – in Auckland, Hamilton and Dunedin – through development and investment activities across the industrial property sector.

Hamilton

The financial year saw settled sales of $22.66 million at Hamilton's Te Rapa Gateway Industrial Park, as sales signed over the previous 18 months saw land development completed, titled and settled.

Te Rapa Gateway is next to State Highway 1 and Hamilton's The Base shopping centre. It is 10km from the city's CBD and 75 minutes from Auckland.

In June 2019, stages three and five of the land development at Te Rapa Gateway were completed at a cost of $13.8 million. This concluded an 18-month phase of land development work to create 36 sections across the two stages – a total of 13.5 hectares.

Land development of 4.82 hectare stage four is now underway, with another 2.1 hectares to be developed in the future.

The company recently started construction at 600 Arthur Porter Drive – a 1,309m² office/warehouse, due for completion in November 2019. Work also began on the second stage of six office/warehouse units of 3,051m² at 31-41 Clem Newby Drive. These are scheduled for a February 2020 completion.

While Chalmers Properties continues to sell limited parcels of land to owner-occupiers, its main focus is design/build/lease projects on developed land. As of 30 June 2019, Te Rapa Gateway owned nine completed and leased buildings.

Auckland

Chalmers Properties' strategy for its Auckland portfolio is to "hold and yield" for the long term.

Valuation increases during the financial year pushed the portfolio's value up to $149.2 million – up 10% on the 2018 valuations. This was the result of firmer property yields, the extension of several existing leases and the signing of new leases on property assets at higher market rentals.

Occupancy across the Auckland portfolio is 100% for built assets.

Oak Road Industrial Park

Civil works commenced in January for stage one of the Oak Road Industrial Park and are on schedule for a September 2019 completion. The first stage, a two hectare block of land will be occupied by two large office/warehouses of 450m²/5,077m² and 350m²/4,000m². The buildings will be owned by Chalmers Properties long term and the company is already fielding strong leasing enquiry. The construction of these buildings commences in August 2019 and is scheduled for a May 2020 completion.

Oak Road Industrial Park is a large Business 6 zoned industrial site in Wiri, 23 kilometres south of Auckland's CBD and two kilometres south west of Manukau's city centre. The total park comprises eight hectares. Three stages of future development are planned.

Dunedin

The Dunedin portfolio is predominantly 60 hectares of industrial leasehold land (lessors' interests) and industrial investment property. During the year, there was continued growth in land values, which increased Dunedin's total property holdings to $166.3 million.

A decision was made to sell specific non-strategic land holdings where lessees had strong development intentions for the sites, but only if the sales met strict criteria. Port Otago took a holistic view to future use of that land. The intention is that the land will be used for activity that enhances Dunedin's economy through new construction work and long-term job growth. A total of $14.84 million worth of leasehold land was sold and the company will continue to consider sales of non-strategic leasehold land, where the criteria is met.

During the 2018/19 year, Chalmers Properties also purchased a 3,000m² site for redevelopment. This land adjoins the company's Steel & Tube property and will settle in the 2019/20 financial year.

Overall, Dunedin remains a key part of the property portfolio, particularly with the hospital build and continued growth in the city's economy.

FINANCIAL STATEMENTS

Group Income Statement

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Revenue	B1		
Marine and cargo services		68,287	61,189
Warehousing and logistics services		13,529	13,746
Investment property rentals		17,227	15,447
Sales of investment property inventories		22,661	19,007
		121,704	**109,389**
Other income			
Gain on sale of investment property and property, plant and equipment		3,897	1,671
Total revenue and other income		**125,601**	**111,060**
Operating expenses	B2		
Staff costs		(34,202)	(32,007)
Purchased materials and services		(25,968)	(20,737)
Cost of sales of investment property inventories		(17,656)	(13,593)
Depreciation and amortisation		(10,039)	(9,223)
Asbestos remediation costs		-	(2,880)
Total operating expenses		**(87,865)**	**(78,440)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax		**37,736**	**32,620**
Financing costs	B3	(2,650)	(2,926)
Share of profit from equity accounted investment	C7 (c)	165	205
Operating profit before non-operating income and expenses and income tax		**35,251**	**29,899**
Non-operating income and expenses			
Subvention payment	E6	(101)	(101)
Unrealised net change in the value of investment property	C1	22,839	22,049
		22,738	21,948
Profit before income tax		**57,989**	**51,847**
Income tax expense	B4	(8,687)	(7,991)
Profit for the year		**49,302**	**43,856**

The accompanying notes form part of these financial statements

Group Statement of Comprehensive Income

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Profit for the year		49,302	43,856
Other comprehensive income			
Cash flow hedges			
Unrealised movement in hedging interest rate swaps (net of tax) that will be reclassified to the income statement in subsequent periods	E4	(837)	(333)
Total comprehensive income for the year		**48,465**	**43,523**

Group Statement of Changes in Equity

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Equity at the beginning of the year		468,075	433,552
Total comprehensive income for the year		48,465	43,523
Distribution to owners			
Dividends paid	E5	(8,450)	(9,000)
Equity at the end of the year		**508,090**	**468,075**

The accompanying notes form part of these financial statements

Group Balance Sheet

As at 30 June 2019

	Notes	2019 $000	2018 $000
Current assets			
Cash and cash equivalents		142	252
Trade and other receivables	D2	15,038	16,687
Investment property inventories	C2	28,829	31,190
Property held for sale	C3	2,105	-
Maintenance inventories	C8	1,381	1,308
		47,495	49,437
Non-current assets			
Investment property	C1	334,120	317,790
Property, plant and equipment	C5	212,826	209,205
Intangible assets	C6	5,895	5,151
Equity accounted investments	C7(c)	2,003	1,631
Other financial assets		-	13
		554,844	533,790
Total assets		**602,339**	**583,227**
Current liabilities			
Trade and other payables	D3	11,952	8,967
Borrowings	D4	930	-
Employee entitlements	E1	5,490	4,984
Provisions	E2	267	2,433
Derivative financial instruments	D1(e)	636	437
Income tax payable		3,150	4,910
		22,425	21,731
Non-current liabilities			
Borrowings	D4	54,750	77,635
Employee entitlements	E1	943	910
Derivative financial instruments	D1(e)	1,534	571
Deferred tax liabilities	B4	14,597	14,305
		71,824	93,421
Total liabilities		**94,249**	**115,152**
Equity			
Share capital	E3	20,000	20,000
Reserves	E4	488,090	448,075
Total equity		**508,090**	**468,075**
Total equity and liabilities		**602,339**	**583,227**

For and on behalf of the Board of Directors

D J Faulkner
Chairman

P F Heslin
Director

The accompanying notes form part of these financial statements

Group Cash Flow Statement

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue		82,608	72,387
Investment property rentals		16,519	14,134
Sale of investment property inventories		22,769	18,229
Interest received		197	11
Cash was applied to:			
Payments to employees and suppliers		(60,625)	(50,642)
Expenditure on investment property inventories		(15,105)	(12,128)
Net GST received/(paid)		1,530	(1,783)
Interest paid		(2,033)	(2,550)
Subvention payments		(101)	(101)
Income tax payments		(9,830)	(6,254)
Net cash flows from operating activities		**35,929**	**31,303**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment		235	418
Sale of investment property		14,836	7,506
Advances from related parties		1,951	737
Cash was applied to:			
Purchase of property, plant and equipment		(14,501)	(36,707)
Purchase and improvements to investment property		(7,294)	(3,372)
Interest capitalised	B3	(861)	(373)
Net cash flows from investing activities		**(5,634)**	**(31,791)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		14,600	20,965
Cash was applied to:			
Repayment of borrowings		(36,555)	(11,750)
Dividends paid	E5	(8,450)	(9,000)
Net cash flows from financing activities		**(30,405)**	**215**
Increase (decrease) in cash held		**(110)**	**(273)**
Cash held at beginning of period		252	525
Cash held at end of period		**142**	**252**

The accompanying notes form part of these financial statements

Reconciliation of profit for the year to net cash flows from operating activities

For the year ended 30 June 2019

	2019 $000	2018 $000
Profit for the Year	49,302	43,856
Plus/(less) non-cash items:		
Unrealised net change in the value of investment property	(22,839)	(22,049)
Depreciation and amortisation	10,039	9,223
Movement in non-current employee entitlements	33	(22)
Movement in deferred tax	617	(1,185)
Plus/(less) items classified as investing activities:		
Gain on sale of property, plant and equipment	(415)	(8)
Gain on sale of investment property	(3,450)	(1,641)
Share of surpluses retained by joint ventures	(165)	(205)
Movement in working capital items:		
Trade and other receivables	790	(3,280)
Trade and other payables	4,033	960
Current employee entitlements	507	88
Provisions	(2,166)	2,433
Income tax payable	(1,760)	2,922
Maintenance inventories	(73)	(112)
Investment property inventories	2,551	686
Movement in other working capital items classified as investing activities	(1,075)	(363)
Net cash flows from operating activities	**35,929**	**31,303**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

Reporting entity

Port Otago Limited ("the Company") is a limited company incorporated and domiciled in New Zealand. The address of its registered office and principal place of business is disclosed in the directory of the annual report.

The financial statements presented are those of Port Otago Limited, its subsidiaries, and share of joint ventures and joint operations ("the Group"). The ultimate owner of the Group is the Otago Regional Council. Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities in Dunedin. The principal activities of the Group are further described in note C7.

These financial statements have been prepared to comply with the Companies Act 1993, the Financial Reporting Act 2013 and the Port Companies Act 1988.

The financial statements of Port Otago Limited are for the year ended 30 June 2019 and were issued by the Board on 3 September 2019.

Basis of preparation

These financial statements of Port Otago Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand.

Accounting policies applied in these financial statements comply with NZ IFRS standards issued and are effective as at the time of preparing these statements (August 2019) as applicable to Port Otago Limited as a profit-oriented entity. In complying with NZ IFRS Port Otago Limited is simultaneously in compliance with International Financial Reporting Standards (IFRS).

Under the Accounting Standards Framework developed by the External Reporting Board (XRB) the Company has elected to report as a Tier 1 entity for group reporting purposes.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The financial statements are presented in New Zealand dollars, which is the Group's functional currency.

Measurement base

These annual financial statements have been prepared under the historical cost convention except for the revaluation of certain assets and the recognition at fair value of certain financial instruments (including derivative financial instruments).

Changes in accounting policies

NZ IFRS 9 Financial instruments

NZ IFRS 9 replaces NZ IAS 39 Financial instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. The standard brings together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

All recognised financial assets that are within the scope of NZ IFRS 9 are required to be measured at amortised at cost or fair value on the basis of the Group's business model for managing financial assets and the contractual cashflow characteristics of the financial assets.

Cash, short term deposits and trade and other receivables were previously classified as 'loans and receivables' and measured at amortised cost. In accordance with NZ IFRS 9, these are initially recognised at fair value and subsequently measured at amortised cost. The classification of financial liabilities under NZ IFRS 9 is largely consistent with NZ IAS 39.

NZ IFRS 9 has changed the accounting for impairment losses for financial assets by replacing NZ IAS 39's incurred loss approach with a forward-looking expected credit loss approach. NZ IFRS 9 requires entities to recognise an allowance for expected credit loss for contract assets and all debt instruments not held at fair value through profit or loss.

The Group adopted the new standard on 1 July 2018 using the full retrospective approach. The Company performed a detailed impact assessment of NZ IFRS 9 and the adoption of the standard did not have a material impact on its financial statements.

NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 supersedes NZ IAS 11 Construction Contracts, NZ IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The Group adopted the new standard on 1 July 2018 using the modified retropective approach. Under this approach, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard only to contracts that are not completed as at 1 July 2018. The cumulative effect of initially applying NZ IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related Interpretations.

The implementation of NZ IFRS 15 did not have a material impact on the Group's recognition of revenue. Most of the Group's revenue relates to relatively simple charging mechanisms where there are clear and easily identifiable performance obligations that take place over a short period of time and where the implementation of the standard does not have a material impact on the timing or value of revenue recognition.

Marine and cargo services revenue is derived from an integrated performance obligation from the provision of channel navigation, berthage, wharfage, stevedoring and empty container services. Warehousing and logistics services revenue is derived from the storage and container packing of customer cargo. Revenue is recognised over time as Port Otago performs the service and the customer simultaneously benefits from that service. Where vessels were at the port over the period end then performance obligations could be satisfied either side of the period end. IFRS 15 requires a more precise allocation of revenue to each period which is consistent with the previous approach to recognition of revenue.

The Group also develops and sells industrial zoned land. Sales of investment property inventories are recognised when control over the property has been transferred to the customer. The revenue is measured at the transaction price agreed under the contract. The consideration is due when legal title has been transferred.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Critical estimates and assumptions

The Group makes estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results and are continually being evaluated based on historical experience and other factors, including expectations of future events that are expected to be reasonable under the circumstances. There are no estimates or assumptions in the view of Directors that have a risk of causing a significant adjustment to the carrying amounts of assets or liabilities within the next financial year.

Information about significant areas of estimation uncertainty that have the most significant effect on the amount recognised in the financial statements is disclosed in the relevant notes:
- Fair value measurements of property portfolio assets (note C4)
- Property, plant and equipment (note C5

Comparatives

Certain prior period revenue and expenditure has been reclassified between functional categories for consistency with the current period.

Standards and interpretations issued and not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

NZ IFRS 16 Leases (effective for the financial year ending 30 June 2020)

NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under NZ IAS 17. The standard includes two recognition exemptions for lessees; leases of 'low value' assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurance of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under NZ IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

NZ IFRS 16 also requires lessees and lessors to make more extensive disclosures than under NZ IAS 17.

The Group plans to adopt the new standard on the required effective date using the modified retrospective approach that is to apply the standard retrospectively with the cummulative effect of initially applying the standard recognised at the date of initial application. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The impact on the balance sheet as at 30 June 2019 of adopting NZ IFRS 16 is not material.

Due to the adoption of NZ IFRS 16, the Group's lease expense will decrease while its interest expense and depreciation expense will increase. This is due to the change in the accounting for expenses for leases that were classified as operating leases under IAS 17.

Other Standards and Interpretations in issue but not yet effective are not expected to have an impact in the financial statements of the Group in the period of initial application. The Group did not early adopt any new or amended standards in 2019.

A. COMMITMENTS AND CONTINGENCIES

A1. Operating lease commitments as lessor

The Group has entered into commercial property leases including perpetual ground leases. These leases have remaining non-cancellable lease terms of up to 21 years. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidential to ownership. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group has determined that it retains all significant risks and rewards of ownership of the commercial property leases and has therefore classified the leases as operating leases. Property leased out under operating leases is included in investment property and property, plant and equipment in the Balance Sheet.

Future minimum rentals receivable under non-cancellable commercial property leases including amounts up to the next renewal term for perpetual ground leases are:

	2019 $000	2018 $000
Rentals receivable		
Receivable within one year	21,291	20,315
Receivable after one year but not more than five years	62,173	66,551
Receivable after more than five years	88,747	104,452
Minimum future lease receivable	**172,211**	**191,318**

A2. Operating lease commitments as lessee

Future minimum rental lease payments for all non-cancellable operating leases are:

	2019 $000	2018 $000
Payable within one year	370	370
Payable after one year but not more than five years	360	333
Payable after more than five years	133	434
Minimum future lease payable	**863**	**1,137**

A3. Capital expenditure commitments

At 30 June 2019 the Group had commitments/approvals for capital expenditure of $22.58 million (2018: $9.31 million) which relates to purchases and refurbishments of port assets and investment property.

A4. Contingencies

There are no contingent liabilities at 30 June 2019 (30 June 2018: nil) other than those arising in the normal course of business.

A5. Significant events after balance date

Dividends

On 3 September 2019 the Directors declared a final dividend of $0.5 million for the year ended 30 June 2019. As the final dividend was approved after balance date, the financial effect of the dividend payable of $0.5 million has not been recognised in the Balance Sheet.

B. REVENUE AND EXPENSES

B1. Revenue

From 1 July 2018 revenue was recognised under NZ IFRS 15. Revenue comprises the amounts receivable in respect of contracts with customers and rental income from investment properties

Port operations revenue

Marine and cargo services revenue is derived from an integrated performance obligation for the provision of channel navigation, berthage, wharfage, stevedoring and empty container services. Warehousing and logistics services revenue is derived from the storage and container packing of customer cargo. Revenue is recognised over time as Port Otago performs the service and the customer simultaneously benefits from that service. Revenue is shown net of rebates and discounts. Apart from changes to the financial statement disclosures the adoption of NZ IFRS 15 has had no material impact on the financial performance of Port Otago for the current and prior years due to the short service performance timeframes.

Investment property rentals

Rental income is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Sale of investment property inventories

Income from the sales of investment property inventories is recognised when an unconditional contract for the sale is in place, it is probable the consideration due will be received and the significant risks and rewards of ownership have been transferred to the purchaser.

Gain on sale of investment property and property, plant and equipment

Gains or losses on the sale of investment property and property, plant and equipment are recognised when an unconditional contract is in place and it is probable that the Group will receive the consideration due and significant risks and rewards of ownership of assets have been transferred to the buyer.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the asset to that asset's net carrying amount.

B2. Operating expenses

Expenses incurred in the financial year of $87.9 million for the Group include the following:

	2019 $000	2018 $000
Audit services	138	136
Bad debts written off	-	2
Expected credit loss	44	-
Directors' remuneration	360	327
Donations and community sponsorship	163	91
Loss on disposal of assets	32	22
Operating leases	977	967
Staff costs		
Wages and salaries	32,607	30,525
Kiwisaver and defined contribution plan employer contributions	1,595	1,482
Total staff costs	**34,202**	**32,007**

Salaries and other short-term employee benefits, including termination payments, paid to key management personnel during the financial year totalled $3,072,146 (2018: $3,125,677).

	Notes	2019 $000	2018 $000
Depreciation and amortisation			
Depreciation of property, plant and equipment	C5	9,357	8,623
Amortisation of intangibles	C6	574	532
Amortised leasing costs		108	68
Total depreciation and amortisation		**10,039**	**9,223**

B3. Financing costs

Borrowing costs directly attributable to the acquisition and/or construction of property, plant and equipment and long term investment property development projects are capitalised as part of the cost of those assets. Other borrowing costs are expensed in the period in which they are incurred.

	2019 $000	2018 $000
Interest income	197	11
Interest expense and bank facility fees	(3,708)	(3,310)
Interest capitalised	861	373
Net financing costs	**(2,650)**	**(2,926)**
Weighted average capitalisation rate on funds borrowed	4.03%	4.23%

B4. Income tax

Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the tax expense is also recognised in equity.

The current tax payable is based on taxable profit for the period. Taxable profit differs from profit reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted by the balance date.

Port Otago Limited is part of a consolidated tax group including its subsidiaries, Chalmers Properties Limited, Fiordland Pilot Services Limited and South Freight Limited.

The total charge for the year can be reconciled to the accounting profit as follows:

	2019 $000	2018 $000
Profit before income tax	**57,989**	**51,847**
Prima facie tax expense at 28%	(16,237)	(14,517)
Non-deductible items	(61)	(67)
Other non assessable income	1,011	480
Unrealised change in investment property	5,557	6,066
Tax loss offset (via subvention payment)	101	101
Deferred tax expense relating to the origination and reversal of temporary differences	942	(54)
Income tax expense	**(8,687)**	**(7,991)**
Allocated between:		
Current tax	(8,171)	(9,277)
Prior period adjustments to current tax	101	101
Deferred tax	(617)	1,185
	(8,687)	**(7,991)**

Deferred tax

Deferred tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax (assets) and liabilities	Property, plant and equipment $000	Investment Property and Investment Property Inventories $000	Financial instruments $000	Other $000	Total $000
Balance at 1 July 2018	13,129	4,017	(282)	(2,559)	14,305
Charged / (credited) to hedging reserve direct to equity	-	-	(325)	-	(325)
Charged / (credited) to income statement	(631)	542	-	706	617
Balance at 30 June 2019	**12,498**	**4,559**	**(607)**	**(1,853)**	**14,597**
Balance at 1 July 2017	13,122	4,426	(169)	(1,759)	15,620
Charged / (credited) to hedging reserve direct to equity	-	-	(130)	-	(130)
Charged / (credited) to income statement	7	(409)	17	(800)	(1,185)
Balance at 30 June 2018	**13,129**	**4,017**	**(282)**	**(2,559)**	**14,305**

Imputation credits	2019 $000	2018 $000
Opening balance	36,679	30,954
Tax payments	4,837	4,256
Anticipated tax payments to meet current year income tax expense	3,300	4,969
Credits attached to dividends paid	(3,286)	(3,500)
Imputation credits available to shareholders for future use	**41,530**	**36,679**

C. KEY ASSETS

C1. Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the Income Statement for the period in which they arise.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The fair value of investment property reflects the Directors' assessment of the highest and best use of each property and amongst other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects the cash outflows that could be expected in respect of the property.

No depreciation or amortisation is provided for on investment properties. However, for tax purposes, depreciation is claimed on building fit-out and a deferred tax liability is recognised where the building component of the revalued building exceeds the tax book value of the building. The deferred tax liability is capped at the amount of depreciation that has been claimed on each building.

Gains or losses on the disposal of investment properties are recognised in the Income Statement in the period in which the risks and rewards of the investment property have been fully transferred to the purchaser.

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying property. Capitalisation of borrowing costs will continue until the asset is substantially ready for its intended use. The rate at which borrowing costs are capitalised is determined by reference to the weighted average borrowing costs and the average level of borrowings.

	Notes	2019 $000	2018 $000
Balance at beginning of year		317,790	302,437
Transfer to investment property inventories	C2	(2,438)	(11,659)
Transfer to investment property held for sale	C3	(2,105)	-
Transfer from investment property inventories	C2	3,139	7,816
Subsequent capital expenditure		6,304	645
Disposals		(11,380)	(3,710)
Net movement in prepaid leasing costs		34	88
Net movement in incentives		(125)	124
Interest capitalised		62	-
Net change in fair value		22,839	22,049
Balance at end of year		**334,120**	**317,790**
Comprising:			
Property portfolio cost		111,757	106,832
Revaluation		222,363	210,958
		334,120	**317,790**
Valued at 30 June balance date as determined by:			
Jones Lang LaSalle		142,100	85,050
Colliers International		192,020	232,740
		334,120	**317,790**

C2. Investment property inventories

Transfers from investment property to investment property inventories occur when there is a change in use evidenced by the commencement of a development with a view to sale. Future development stages that have not yet commenced and are being held for capital appreciation are accounted for in investment property.

Investment property inventories are accounted for as inventory under NZ IAS 2 and initially recognised at deemed cost represented by the fair value at the time of commencement of the development. Further costs directly incurred through development activities are capitalised to the cost of the investment property inventories.

Investment property inventories are valued annually and are measured at the lower of cost and fair value. Where costs exceed the fair value of the investment property inventories the resulting impairments are included in the Income Statement in the period in which they arise.

	Notes	2019 $000	2018 $000
Balance at beginning of year		31,190	25,696
Transfer from investment property	C1	2,438	11,659
Transfer to investment property	C1	(3,139)	(7,816)
Land purchases		2,080	2,714
Subsequent capital expenditure		13,096	15,595
Disposals		(17,347)	(16,263)
Interest capitalised		511	162
Impairment		-	(557)
Balance at end of year		**28,829**	**31,190**
Comprising:			
Property portfolio cost		28,127	31,609
Revaluation		702	(419)
		28,829	**31,190**
Developed land for sale		19,282	8,230
Units and warehouse developments in progress		2,821	2,408
Land in development		6,726	20,552
		28,829	**31,190**

Developed land for sale

The $19.3 million carrying value of developed land at balance date reflects the cost of the 10.0 hectares (Group share: 9.2 hectares) remaining developed land. In their June 2019 valuation, Jones Lang LaSalle stated a net realisable value of $28.1 million (Group share: $26.1 million).

At the previous balance date the $8.2 million carrying value of developed land reflected the cost of the 6.8 hectares (Group share: 4.8 hectares) on hand. In their June 2018 valuation, Jones Lang LaSalle stated a net realisable value of $17.0 million (Group share: $12.0 million) for the remaining developed land on hand.

Units and warehouse developments in progress

During the year the Group commenced development of a further six units as well as the development of a further warehouse, at Te Rapa, Hamilton. A warehouse that was developed in the previous year, was tenanted during the year and has now been transferred to investment property.

Land in development

In their June 2019 valuation, Jones Lang LaSalle stated a net realisable value of $13.8 million (Group share: $13.8 million) for land in development within the industrial subdidivision at Te Rapa in Hamilton. Upon completion the land will provide a further 6.3 hectares (Group share: 6.3 hectares) of developed land for sale.

At the previous balance date, Jones Lang La Salle stated a net realisable value of $22.9 million (Group share: $20.6 million) for the land being developed to yield a further 21.4 hectares of developed land for sale (Group share: 20.2 hectares).

C3. Property held for sale

Property classified as held for sale is measured at:

- fair value for investment property held for sale (NZ IAS 40);and
- fair value less estimated costs of disposal, measured at the time of transfer, for items transferred from property, plant and equipment (NZ IFRS 5).

Property is classified as held for sale if the carrying amount will be recovered through a sales transaction rather than through continuing use. Property is not depreciated or amortised while it is classified as held for sale.

During the year, Chalmers Properties Limited entered into an unconditional sales and purchase agreement. The land was valued by Colliers on 30 June 2019.

	Notes	2019 $000	2018 $000
Balance at beginning of year		-	2,145
Transfer from investment property	C1	2,105	-
Disposals		-	(2,145)
Balance at end of year		**2,105**	**-**
Comprising:			
Property portfolio cost		118	-
Revaluation		1,987	-
		2,105	**-**
Current asset		2,105	-
Non-current asset		-	-
		2,105	**-**

C4. Fair value measurements of property portfolio assets

Critical estimates and assumptions

The valuation of investment property requires estimation and judgement. The fair value of investment properties are determined from valuations prepared by independent valuers using Level 3 valuation techniques. Level 3 valuation techniques use inputs for the asset that are not based on observable market data, that is, unobservable inputs.
All investment properties were valued as at balance date by Colliers International or Jones Lang LaSalle, who are independent valuers and members of the New Zealand Institute of Valuers.

There is a policy of rotation of independent investment property valuers. The terms of rotation for ground leases are every four years and all other investment properties, every three years.

As part of the valuation process, management verifies all major inputs to the independent valuation reports, assesses movements in individual property values and holds discussions with the independent valuer. The fair value was determined using Level 3 valuation techniques via a combination of the following approaches:

- Direct Capitalisation: The subject property rental is divided by a market derived capitalisation rate to assess the market value of the asset. Further adjustments are then made to the market value to reflect under or over renting, additional revenue and required capital expenditure.
- Discounted Cash Flow: Discounted cash flow projections for the subject property are based on estimates of future cash flows, supported by the terms of any existing lease and by external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.
- Sales Comparison: The subject property is related at a rate per sqm as a means of comparing evidence. In applying this approach a number of factors are taken into account such as but not limited to, size, location, zoning, contour, access, development potential and end use, availability of services, profile and exposure, current use of surrounding properties, geotechnical and topographical constraints.

Significant inputs used together with the impact on fair value of a change in inputs:

	Range of significant unobservable inputs		Fair value measurement sensivity to significant	
			Increase in input	Decrease in input
Market capitalisation rate (%) [1]	5.0%	8.5%	Decrease	Increase
Market rental ($ per sqm) [2]	$8.70	$450.00	Increase	Decrease
Discount rate (%) [3]	7.0%	10.0%	Decrease	Increase
Rental growth rate (%) [4]	1.5%	3.5%	Increase	Decrease
Terminal capitalisation rate (%) [5]	5.0%	8.5%	Decrease	Increase
Profit and risk rate (%) [6]	15.0%	15.0%	Decrease	Increase
Development sell down period (years) [7]	4 years	4 years	Decrease	Increase

1. The capitalisation rate applied to the market rental to assess a property's value, determined through similar transactions taking into account location, weighted average lease term, size and quality of the property.
2. The valuers assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction.
3. The rate applied to future cash flows relating transactional evidence from similar properties.
4. The rate applied to the market rental over the future cash flow projection.
5. The rate used to assess the terminal value of the property.
6. The rate provides an allowance for the risks and uncertainties associated with similar activities in conjunction with current market conditions.
7. The length of time in years anticipated to complete the sell down of developed land.

Investment Property - reconciliation of level 3 fair value measurements

	2019 $000	2018 $000
Balance at beginning of year	317,790	302,437
Unrealised net change in the value of investment property	22,839	22,049
Purchases	6,275	857
Disposals	(11,380)	(3,710)
Transfers from investment property inventories	3,139	7,816
Transfers to investment property inventories and property held for sale	(4,543)	(11,659)
Balance at the end of the year	**334,120**	**317,790**

C5. Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant, interest costs incurred during the period required to construct an item of property, plant and equipment are capitalised as part of the asset's total cost.

Property is classified as property, plant and equipment rather than investment property if the property is held to meet the strategic purposes of the port, or to form part of buffer zones to port activity, or to assist the provision of port services, or to promote or encourage the import or export of goods through the port.

Included in harbour improvements and capital work in progress is the capitalised cost of channel dredging of $8,218,000 (2018: $6,997,000)

	Land $000	Buildings and improvements $000	Harbour improvements $000	Plant, equipment & vehicles $000	Capital work in progress $000	Total $000
Cost						
Balance 1 July 2017	34,342	67,734	61,492	102,097	3,685	269,350
Additions	949	2,608	766	6,427	25,695	36,445
Disposals	-	(43)	-	(2,575)	-	(2,618)
Cost at 30 June 2018	**35,291**	**70,299**	**62,258**	**105,949**	**29,380**	**303,177**
Balance 1 July 2018	35,291	70,299	62,258	105,949	29,380	303,177
Additions	-	2,473	27,376	10,720	(27,392)	13,177
Disposals	(10)	(3)	-	(2,146)	-	(2,159)
Cost at 30 June 2019	**35,281**	**72,769**	**89,634**	**114,523**	**1,988**	**314,195**
Accumulated depreciation						
Balance 1 July 2017	-	18,841	18,916	50,141	-	87,898
Depreciation for period	-	2,548	1,555	4,520	-	8,623
Disposals	-	(43)	-	(2,506)	-	(2,549)
Accumulated depreciation at 30 June 2018	**-**	**21,346**	**20,471**	**52,155**	**-**	**93,972**
Balance 1 July 2018	-	21,346	20,471	52,155	-	93,972
Depreciation for period		2,734	1,855	4,768	-	9,357
Disposals		(1)	-	(1,959)	-	(1,960)
Accumulated depreciation at 30 June 2019	**-**	**24,079**	**22,326**	**54,964**	**-**	**101,369**
Net book value						
At 30 June 2017	34,342	48,893	42,576	51,956	3,685	181,452
At 30 June 2018	**35,291**	**48,953**	**41,787**	**53,794**	**29,380**	**209,205**
At 30 June 2018	35,291	48,953	41,787	53,794	29,380	209,205
At 30 June 2019	**35,281**	**48,690**	**67,308**	**59,559**	**1,988**	**212,826**

Critical estimates and assumptions

At each balance date, the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful lives and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life of residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the Income Statement and carrying amount of the asset in the Balance Sheet. The Group minimises the risk of this estimation uncertainty by physical inspection of assets, asset replacement programmes and analysis of prior asset sales.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis so as to allocate the costs of assets over their estimated useful lives as follows:

Land	nil
Buildings and improvements	10-50 years
Harbour improvements	
- Wharves	15-70 years
- berth and channel dredging	nil
Vessels and floating plant	5-30 years
Other plant, equipment and vehicles	3-30 years

Impairment

Assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indication of impairment exists then the asset's recoverable amount is estimated. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in depreciation, amortisation and impairment losses in the Income Statement.

C6. Intangible assets

The cost of acquiring an intangible asset is amortised from the date the asset is ready for use on a straight-line basis over the periods of expected benefit.

	Computer software $000	Resource consents $000	Total $000
Cost			
Balance 1 July 2017	6,030	5,621	11,651
Additions	234	20	254
Disposals	-	-	-
Cost at 30 June 2018	**6,264**	**5,641**	**11,905**
Balance 1 July 2018	6,264	5,641	11,905
Additions	1,318	-	1,318
Disposals	(3)	-	(3)
Cost at 30 June 2019	**7,579**	**5,641**	**13,220**
Accumulated amortisation			
Balance 1 July 2017	5,308	914	6,222
Amortisation expense	272	260	532
Disposals	-	-	-
Accumulated amortisation at 30 June 2018	**5,580**	**1,174**	**6,754**
Balance 1 July 2018	5,580	1,174	6,754
Amortisation expense	318	256	574
Disposals	(3)	-	(3)
Accumulated amortisation at 30 June 2019	**5,895**	**1,430**	**7,325**
Net book value			
At 30 June 2017	722	4,707	5,429
At 30 June 2018	**684**	**4,467**	**5,151**
At 30 June 2018	684	4,467	5,151
At 30 June 2019	**1,684**	**4,211**	**5,895**

Computer software

Computer software assets are stated at cost, less accumulated amortisation and impairment. The amortisation periods range from 1 to 5 years.

Resource consents

For resource consents the amortisation periods range from 3 to 25 years. Where the periods of expected benefit or recoverable values have diminished, due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

Resource consents relate to the granting of the consents which will allow Port Otago Limited to deepen to 15 metres and widen the channel in Otago Harbour so larger ships will be able to call at Port Chalmers. Consents were granted in January 2013 and were activated in March 2015. Amortisation of the carrying amounts commenced on the activation of the consents and will be amortised over the life of the consents which is either 3 years or 20 years. An additional 25 year consent was granted in June 2017 to undertake maintenance dredging and disposal of dredge spoil.

C7. Investment in subsidiaries, joint ventures and joint operations

The financial statements include those of Port Otago Limited (the Company) and its subsidiaries and joint operations accounted for by line aggregation of assets, liabilities, revenues, expenses and cash flows that are recognised in the financial statements. Joint operations are accounted for on a proportionate basis. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits and losses and movements in other comprehensive income.

Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Business combinations are accounted for using the acquisition method as at the acquistion date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The results of subsidiaries acquired or disposed of during the period are included in the Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions are eliminated on consolidation.

C7(a). Principal subsidiaries

The Group included the following subsidiaries at 30 June 2019. All subsidiaries have a 30 June balance date.

Name	% of ownership interest	Principal activity	Principal place of business
Chalmers Properties Limited	100%	Property investment	Dunedin and Auckland
Te Rapa Gateway Limited	100%	Property investment	Hamilton
Fiordland Pilot Services Limited	100%	Shipping services	Fiordland
South Freight Limited	100%	Transport investment	Dunedin

There are no significant restrictions to the Company settling the liabilities of the subsidiaries or the Company's access to the assets, except for the general security agreement and registered first-ranking mortgages over land as detailed in note D4. There has been no significant change in the risks associated with these interests.

Chalmers Properties Limited has provided an advance to Te Rapa Gateway Limited to fund its share of land acquisition and development expenditure. The current intention of Chalmers Properties Limited is to provide ongoing financial support to Te Rapa Gateway Limited.

Port Otago Limited and Chalmers Properties Limited have a $300,000 overdraft offset facility arrangement which is included in the Group debt facility detailed in note D4. The purpose of this arrangement is to minimise any interest costs to the two entities.

C7(b). Joint operation investments accounted for on a proportionate consolidation basis

Below are the joint operations of the Group which have been accounted for on a proportionate consolidation basis. All the joint operations have a 30 June balance date.

All the parties to the following joint arrangements have joint control, that is, decisions require the unanimous consent of all the parties sharing control. The contractual terms of the arrangements specify that all parties to the arrangements share all liabilities, obligations, costs and expenses in proportion to the parties' ownership interest.

Name	% of ownership interest	Principal activity	Principal place of business
HarbourCold Dunedin (dis-established 30 September 2018)	50%	Cold store operation	Dunedin
Hamilton Porter Joint Venture	66.7%	Property investment	Hamilton

The participants of HarbourCold Dunedin agreed to dis-establish the joint venture from 30 September 2018 when the cold storage operations reverted to Port Otago Limited with a storage agreement negotiated with Sealord Group Limited.

The property investments in the Hamilton Porter Joint Venture provide geographical diversification of the investment property portfolio. Any capital commitments and contingent liabilities arising from the Group's interest in the joint operations are disclosed in notes A3 and A4 respectively.

The following summarised financial information reflects the amounts presented in the financial statements of the individual joint operations, and the Group's share of those amounts.

Current period to 30 June 2019

				Group's share		
	100%	100%		67%	50%	
	The Hamilton Porter Joint Venture $000	Harbour Cold Dunedin $000	Total $000	The Hamilton Porter Joint Venture $000	Harbour Cold Dunedin $000	Total $000
Cash and cash equivalents	4	-	4	3	-	3
Other current assets	11,683	-	11,683	7,828	-	7,828
Total current assets	11,687	-	11,687	7,831	-	7,831
Non-current assets	9	-	9	6	-	6
Total assets	**11,696**	**-**	**11,696**	**7,837**	**-**	**7,837**
Current liabilities	(288)	-	(288)	(193)	-	(193)
Total liabilities	(288)	-	(288)	(193)	-	(193)
Net assets	**11,408**	**-**	**11,408**	**7,644**	**-**	**7,644**
Operating revenue	19,956	365	20,321	13,371	183	13,554
Interest revenue	20	-	20	13	-	13
Interest expense	-	-	-	-	-	-
Profit before tax	4,515	19	4,534	3,012	10	3,022
Income tax expense	-	-	-	-	-	-
Total comprehensive income	**4,515**	**19**	**4,534**	**3,012**	**10**	**3,022**

Comparative period to 30 June 2018

				Group's share		
	100%	100%		67%	50%	
	The Hamilton Porter Joint Venture $000	Harbour Cold Dunedin $000	Total $000	The Hamilton Porter Joint Venture $000	Harbour Cold Dunedin $000	Total $000
Cash and cash equivalents	5	-	5	3	-	3
Other current assets	13,561	427	13,988	9,086	214	9,300
Total current assets	13,566	427	13,993	9,089	214	9,303
Non-current assets	12	39	51	8	20	28
Total assets	**13,578**	**466**	**14,044**	**9,097**	**234**	**9,331**
Current liabilities	(859)	(88)	(947)	(576)	(44)	(620)
Total liabilities	(859)	(88)	(947)	(576)	(44)	(620)
Net assets	**12,719**	**378**	**13,097**	**8,521**	**190**	**8,711**
Operating revenue	13,880	1,664	15,544	9,300	832	10,132
Interest revenue	2	-	2	1	-	1
Interest expense	-	-	-	-	-	-
Profit before tax	3,577	46	3,623	2,386	23	2,409
Income tax expense	-	-	-	-	-	-
Total comprehensive income	**3,577**	**46**	**3,623**	**2,386**	**23**	**2,409**

C7(c). Joint venture investments accounted for using the equity method

Below are the summarised financial information for Icon Logistics Limited in which South Freight Limited has a 50% ownership interest and has been accounted for using the equity method. South Freight Limited is a wholly owned subsidiary of Port Otago Limited. Icon Logistics Limited provides container transport and warehousing services in Dunedin which are strategic to the port operating activities of Port Otago. Icon Logistics Limited has a 30 June balance date and there are no contingent liabilities relating to the Group's interest in the joint venture.

The contractual terms of the arrangement specify that all parties are only liable to the extent of their respective investment or to contribute any unpaid or additional capital to the arrangement. Unanimous consent of all the parties to the arrangement is required for all capital and material decisions to the extent its impact is in excess of $50,000. Shareholders are restricted from selling, transferring or disposing of any shares without first offering for sale to the other shareholders.

Summarised Balance Sheet

	Icon Logistics Limited	
	2019 $000	2018 $000
Cash and cash equivalents	593	436
Other current assets	1,251	1,117
Total current assets	1,844	1,553
Non-current assets	2,965	2,483
Total assets	**4,809**	**4,036**
Current liabilities	(804)	(773)
Non current liabilities	-	-
Net assets (100%)	**4,005**	**3,263**
Group's share of net assets (50%)	**2,003**	**1,631**

Summarised Statement of Comprehensive Income

	Icon Logistics Limited	
	2019 $000	2018 $000
Operating revenue	8,845	7,974
Interest revenue	5	7
Interest expense	(11)	-
Profit before tax	465	579
Income tax expense	(135)	(170)
Total comprehensive income (100%)	**330**	**409**
Group's share of total comprehensive income (50%)	**165**	**205**

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

	2019 $000	2018 $000
Opening net assets	3,263	2,854
Total comprehensive income for the period	330	409
Plus shareholder contributions	412	-
Closing net assets	4,005	3,263
Interest in joint venture (50%)	**2,003**	**1,631**

C8. Maintenance inventories

Inventories are stores, materials and maintenance spares to be consumed in the rendering of services and are stated at the lower of cost and net realisable value. The cost of stores, materials and maintenance spares are determined on a weighted average basis. The carrying amounts of inventories includes appropriate allowances for obsolescence and deterioration.

D. FINANCIAL RISK MANAGEMENT

D1(a). Managing financial risk

The Group's activities expose it primarily to the financial risks of market risk (including interest rate risk and foreign exchange rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The Board is responsible for ensuring that key business and financial risks are identified, and that appropriate controls and procedures are in place to effectively manage those risks. The Group has a treasury policy approved by the Board, which provides guidelines for the risk management activities. The Board has overall responsibility for ensuring that the Group's risk management framework is appropriate and that risks are identified, considered and managed.

Borrowings at variable interest rates expose the Group to interest rate risk. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps with a range of terms. These interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Group is exposed to foreign exchange risk when purchasing major items of plant and equipment with payment denominated in a foreign currency. Foreign currency forward purchase contracts are used to limit the Group's exposure to movements in exchange rates on foreign currency denominated liabilities and purchase commitments.

In the normal course of business the Group incurs credit risk from trade receivables. Reflecting the nature of the business, a concentration of credit risk occurs due to a small number of shipping line and warehousing clients comprising a majority amount of port trade receivables.

Regular monitoring of trade receivables is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

D1(b). Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls and meet capital expenditure requirements.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due, or to avoid a possible past due status. No trade receivables were individually impaired.

D1(c). Financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates hedges of highly probable forecast transactions as cash flow hedges. Changes in the fair value of derivatives qualifying as cash flow hedges are recognised in other comprehensive income and transferred to the cash flow hedge reserve in equity. The ineffective component of the fair value changes on the hedging instrument is recorded directly in the Income Statement.

When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps.

The net differential paid or received on interest rate swaps is recognised as a component of interest expense over the period of the swap agreement.

The Group carries interest rate derivatives (derivative financial instruments) at fair value. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates. These instruments are included in Level 2 of the fair value measurement hierarchy. Interest rate derivative fair values are valued and are calculated using a discounted cash flow model using FRA rates provided by ANZ Bank New Zealand Limited based on the reporting date of 30 June 2019.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less. Bank overdrafts form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

D1(d). Credit quality of financial assets

The maximum credit exposure for each class of financial asset is as follows:

	2019 $000	2018 $000
Cash and cash equivalents (Credit rating AA-)	142	252
Trade and other receivables (Non rated - nil defaults)	13,702	14,620
Total credit risk	**13,844**	**14,872**

Trade and other receivables mainly arise from the Group's principal activities and procedures are in place to regularly monitor trade receivables to ensure that the credit exposure remains within the Group's normal terms of trade.

Regular monitoring of other financial assets is undertaken to ensure the credit exposure is appropriate for that class of asset.

D1(e). Contractual maturity analysis of financial liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

	Weighted average effective interest rate	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1-5 years $000	Greater than 5 years $000
As at 30 June 2019						
Trade and other payables	-	(11,952)	(11,952)	(11,952)	-	-
Borrowings (secured)	3.7%	(55,680)	(61,203)	(16,414)	(44,789)	-
Interest rate derivatives						
Current portion		(636)	(685)	(685)	-	-
Non current portion		(1,534)	(1,819)	-	(1,582)	(237)
Total interest rate derivatives (net)	**-**	**(2,170)**	**(2,504)**	**(685)**	**(1,582)**	**(237)**
Total as at 30 June 2019		**(69,802)**	**(75,659)**	**(29,051)**	**(46,371)**	**(237)**
As at 30 June 2018						
Trade and other payables	-	(8,967)	(8,967)	(8,967)	-	-
Borrowings (secured)	4.0%	(77,635)	(85,225)	(31,565)	(40,846)	(12,814)
Interest rate derivatives						
Current portion		(437)	(508)	(508)	-	-
Non current portion		(571)	(596)	-	(621)	25
Total Interest rate derivatives (net)	**-**	**(1,008)**	**(1,104)**	**(508)**	**(621)**	**25**
Total as at 30 June 2018		**(87,610)**	**(95,296)**	**(41,040)**	**(41,467)**	**(12,789)**

D1(f). Sensitivity analysis of financial instruments

The table below illustrates the potential profit and equity (excluding retained earnings) impact for reasonably possible market movements where the impact is significant.

	2019			
	-100bps		+100bps	
	Profit $000	Other Equity $000	Profit $000	Other Equity $000
Interest rate risk				
Financial Liabilities				
Hedge accounted derivatives	-	(3,542)	-	(948)
Borrowings	557	-	(557)	-
Total sensitivity to interest rate risk	**557**	**(3,542)**	**(557)**	**(948)**

	2018			
	-100bps		+100bps	
	Profit $000	Other Equity $000	Profit $000	Other Equity $000
Interest rate risk				
Financial Liabilities				
Hedge accounted derivatives	-	(2,821)	-	572
Borrowings	776	-	(776)	-
Total sensitivity to interest rate risk	**776**	**(2,821)**	**(776)**	**572**

D2. Trade and other receivables

Trade and other receivables arise in the ordinary course of business and are initially valued at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. Port Otago invoices for services as they are performed, generally on a monthly basis. They are non-interest bearing and have payment terms of generally the 20th of the month following the invoice.

	2019 $000	2018 $000
Trade receivables	13,702	14,620
GST receivable	-	1,014
Amount owing by related parties	81	233
Prepayments	1,255	820
Balance at end of year	**15,038**	**16,687**

Credit risk

The calculation of impairment losses impacts the way the Group calculates the bad debt provision, now termed the credit loss allowance. The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. A provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk. On that basis, the credit loss allowance as at 30 June 2019 was determined as follows:

	Investment property	Port operations
Not past due	0.10%	0.04%
Past due 1-31 days	0.10%	0.04%
Past due 32-61 days	0.10%	0.07%
Past due 62-92 days	0.10%	0.40%
Past due more than 93 days	0.10%	1.73%

The status of trade receivables at the reporting date is as follows:

	2019 Gross Receivable $000	2018 Gross Receivable $000
Not past due	9,543	13,734
Past due 30-60 days	3,417	643
Past due 61-90 days	584	190
Past due more than 90 days	202	53
Less allowance based on historic credit losses	(44)	-
Balance at end of year	**13,702**	**14,620**

The Group has applied the exemption under NZ IFRS 9 to not restate comparatives as the credit loss allowance did not result in material changes to the amounts previously reported.

D3. Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method.

	2019 $000	2018 $000
Accounts payable	3,717	5,705
Amounts owing to related parties - joint venture partner	2,128	-
Other accrued charges	5,211	3,260
GST payable	786	-
Property deposits received	110	2
Balance at end of year	**11,952**	**8,967**

D4. Borrowings

Borrowings are recognised initially at fair value. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings, using the effective interest method. The effective interest rate is 4.22% (2018: 4.30%).

The carrying amount of borrowings reflects fair value as the borrowing finance rates approximate market rates.

	2019 $000	2018 $000
Bank borrowings		
Current liability - Commercial Flexi Facility	930	-
Non-current liability - Short Term Advances Facility	54,750	77,635
Total bank borrowings	**55,680**	**77,635**

Port Otago Group facility

The Group has a $81 million Short Term Advances Facility with ANZ Bank New Zealand Limited which the Group may draw funding for terms ranging from call to the termination of the agreement, which is 1 July 2022. In addition, the Group has a $19 million Commercial Flexi Facility with ANZ Bank New Zealand Limited which is subject to an annual review at 30 June 2020.

The security for advances is a cross guarantee between Port Otago Limited and Chalmers Properties Limited in favour of the lender, general security agreement over the assets of the Group and registered first-ranking mortgages over land.

Interest rate risk

The notional principle outstanding with regard to the interest rate swaps is:

	2019 $000	2018 $000
Maturing in less than one year	7,100	9,600
Maturing between one and five years	35,950	36,050
Maturing in more than five years	5,100	12,100
Total interest rate risk	**48,150**	**57,750**

E. OTHER INFORMATION

E1. Employee entitlements

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave, sick leave, long service leave, retiring allowances, superannuation contributions, profit sharing and incentive plans when it is probable that settlement will be required.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at undiscounted amounts based on remuneration rates that the Group expects to pay.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date. These provisions are affected by a number of estimates including projected interest rates, the expected length of service of employees and future levels of employee earnings. Long service leave accrued to key management personnel at balance date totalled $49,816 (2018: $45,100).

	2019 $000	2018 $000
Accrued wages, salaries and other benefits	1,311	1,118
Annual leave	4,074	3,752
Long service leave	888	837
Retiring allowances	55	73
Sick leave	105	114
Balance at end of year	**6,433**	**5,894**
Analysed as:		
Current	5,490	4,984
Non-current	943	910
	6,433	**5,894**

E2. Provisions

Port Otago Limited has identified buildings where asbestos is present and is working through a planned approach of removal of all asbestos from these sites. Where it is determined to not be feasible to refurbish a structure following the removal of the asbestos, the building will be demolished. At June 2019 only two sites remain with asbestos to be remediated. This will occur during the 2020 financial year.

	2019 $000	2018 $000
Asbestos remediation provision	267	2,433
Balance at end of year	**267**	**2,433**

E3. Share capital

At 30 June 2019 Port Otago Limited has 20,000,000 ordinary shares (2018: 20,000,000 ordinary shares). All shares are fully paid and have no par value. All shares carry equal voting rights and the right to share in any surplus on the winding up of the Group.

E4. Reserves

Retained earnings

The purpose of the retained earnings reserve is to hold funds for future investment or returns to the shareholder.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

The reserves are represented by:

	2019 $000	2018 $000
Retained earnings		
Balance at beginning of year	448,803	413,947
Profit for the year	49,302	43,856
Less dividends paid	(8,450)	(9,000)
Balance at end of year	**489,655**	**448,803**
Hedging reserve		
Balance at beginning of year	(728)	(395)
Change in fair value of interest rate swaps	(1,162)	(463)
Deferred tax arising on fair value movement	325	130
Net change in cash flow hedges	(837)	(333)
Balance at end of year	**(1,565)**	**(728)**
Total Reserves	**488,090**	**448,075**

Capital management strategy

The Company's capital is its equity, which comprises the reserves noted above. Equity is represented by net assets. The owners of the Group require the Board to manage its reserves, expenses, assets and liability transactions prudently. The Group's equity is therefore managed as a by-product of these prudent transactions. The objective of managing the Group's equity is to ensure that the Group effectively achieves its objectives while providing a financial return to the owners. The Group manages capital on the basis of the equity ratio with a target range of 70% to 85%.

E5. Dividends declared and proposed

	2019 $000	2018 $000
First interim dividend paid 18 cps (2018: 17.5 cps)	3,600	3,500
Second interim dividend paid 18 cps (2018: 17.5 cps)	3,600	3,500
Special dividend paid 3.75 cps (2018: 7.5 cps)	750	1,500
Final dividend 2.5 cps (2018: 2.5 cps)	500	500
Dividends for the financial year	**8,450**	**9,000**
Adjust for dividends declared after year end:		
2019 Final dividend declared September 2019	(500)	-
2018 Final dividend declared September 2018	500	(500)
2017 Final dividend declared September 2017	-	500
Dividend distributed to owners as disclosed in the Statement of Changes in Equity	**8,450**	**9,000**
Dividends - cents per share (cps)	42.25	45

E6. Transactions with related parties

The amounts owing to/from related parties are payable in accordance with the Group's normal terms of trade. No related party debts have been written off or forgiven during the year.

Amounts receivable from related parties are included in note D2. Amounts payable to related parties are included in note D3.

Transactions with Otago Regional Council

During the year the Group and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer 2018 tax year losses to the Group. In conjunction with the tax loss transfer of $258,592 (2018 tax year: $259,279), by way of a tax loss offset, the Group made a subvention payment of $100,564 (2018 tax year: $100,831) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $100,564 reduction in income tax payments in the current year (2018: $100,831).

The amount paid to the Otago Regional Council for rates, rentals and resource consent fees during 2019 was $84,870 (2018: $86,382) with no balance outstanding at year end (2018: $1,293). The amount received from the Otago Regional Council as a contribution towards the operation of the Harbour Control Centre at Port Chalmers was $60,000 (2018: $60,000) with $17,250 receivable at year end (2018: $17,250). No amount was received for property rentals or log recovery services (2018: $4,775).

Transactions with Harbourcold Dunedin

Port Otago Limited had a 50% interest in Harbourcold Dunedin which was dis-established during the period. Harbourcold Dunedin was a tenant and purchaser of materials and services from Port Otago Limited. The amount received from Harbourcold Dunedin during 2019 for property rentals and the purchase of materials and services was $175,318 (2018: $725,746) with no receivable balance outstanding at year end (2018: $6,672). No dividend was received from Harbourcold Dunedin during 2019 (2018: nil).

Transactions with Icon Logistics Limited

Port Otago Limited has a 50% interest in Icon Logistics Limited through its wholly owned subsidiary, South Freight Limited. Icon Logistics Limited is a tenant and purchaser of services from Port Otago Limited. The amount received from Icon Logistics Limited during 2019 for property rentals and sale of services was $140,059 (2018: $106,209) with $15,609 receivable at year end (2018: $8,385).

Icon Logistics Limited also provides transport services to Port Otago Limited. The amount paid to Icon Logistics Limited during 2019 for the supply of transport services was $1,507,330 (2018: $958,964) with $112,934 payable at year end (2018: $121,367).

South Freight Limited provided a $200,000 advance to Icon Logistics Limited during the year for the upgrade of yard space. The advanced amount is payable on demand and attracts an annual interest rate of 3.65% per annum. For the period ended 30 June 2019, interest revenue of $5,660 was accrued.

Transactions with Hamilton Porter JV

Port Otago Limited has a 66.7% interest in the Hamilton Porter JV through its wholly owned subsidiary, Te Rapa Gateway Limited which has provided an advance to Hamilton Porter JV to fund its share of development costs. All amounts owing were repaid in full during the year (2018 balance due: $102,000). Hamilton Porter JV has also agreed to compensate Te Rapa Gateway Limited for a share of land utilised in the industrial subdivision for the subdivision's stormwater catchment management plan. All remaining amounts to be compensated were fully paid during the year (2018 balance due: $596,000).

In September 2018 Te Rapa Gateway Limited purchased 24,843 m2 of developed land from Hamilton Porter JV for $6,210,750 based upon a negotiated purchase price of $250m2. In the previous year, Te Rapa Gateway Limited purchased 58,148 m2 of undeveloped land from Hamilton Porter JV for $8,140,720 at a negotiated purchase price of $140m2.

Chalmers Properties Limited provides accounting and administration services to Hamilton Porter JV for which $10,000 (2018: $10,000) was charged. At balance date the amount owing to Chalmers Properties Limited was nil (2018: $11,500)

At June 2019, the Hamilton Porter JV is owed $6,382,762 from Te Rapa Gateway Limited as its share of land sales to external parties which settled just before balance date.

Directors

Mr D J Faulkner is Chairman of Fulton Hogan Limited, a supplier to the Group. The amount paid to Fulton Hogan Limited, and its wholly owned subsidiaries during 2019 for the supply of goods and services was $1,777,583 (2018: $2,770,940) with $521,386 payable at year end (2018: $600,643).

Chief Executive

Mr K Winders is a Director of Dunedin Venues Management Limited, a supplier to the Group. The amount paid to Dunedin Venues Management Limited during 2019 for the supply of goods and services was $34,724 (2018: $28,608) with $3,467 payable at year end (2018: $1,131).

AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of the Port Otago Limited group's financial statements for the year ended 30 June 2019

The Auditor-General is the auditor of Port Otago Limited group (the Port Group). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Port Group on his behalf.

Opinion

We have audited the financial statements of the Port Group on pages 34 to 64, that comprise the balance sheet as at 30 June 2019, the income statement, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Port Group:

- present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 3 September 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

The Board of Directors are 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 are responsible on behalf of the Port Group for assessing the company's ability to continue as a going concern. The Board of Directors are 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 Port Group 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 and 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 Port Group'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 Port Group'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 Port Group 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 obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Port Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Port Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors are responsible for the other information. The other information comprises the information included on pages 1 to 31 and 68 to 74, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

We are independent of the Port Group 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 Port Group.

Andy Burns
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

Statutory Disclosure

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2019.

Group activities

Port Otago Limited provides a full range of port facilities for cruise vessels, bulk cargo, container stevedoring, empty containers services and warehousing services at Port Otago.

Chalmers Properties Limited, a wholly owned subsidiary, manages the Group's investment property portfolio and undertakes land development.

Financial results

The Group recorded a profit for the year of $49.3 million, compared to $43.9 million last year.

Dividends

A final dividend of $0.5 million will be paid on 5 September 2019, which brings total dividends for the year to $8.45 million.

Changes in Accounting Policies

Accounting policies have been applied on a consistent basis with the prior year.

Directors remuneration

Remuneration paid by the Port Otago Group to Directors during the year was:

	Total Group $000
D J Faulkner (Chair)	100
P F Rea (deputy Chair)	70
T Campbell	50
T D Gibson	50
P F Heslin	58
E G Johnson (retired)	27
D J Taylor	5
	360

Directors' interests

Directors have disclosed the following general interests for the year ended 30 June 2019 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
D J Faulkner	Fulton Hogan Limited	Chair
	Cold Storage Nelson Limited	Director
T Campbell	Energy Efficiency and Conservation Authority	Chair
	Electricity Invercargill Limited	Chair
	Southern Generation LP	Chair
	PowerNet Limited	Director
	Todd Corporation Limited	Director
	Venture Southland (resigned December 2018)	Director
P F Rea	No interest register entries recorded	
T D Gibson	Fiscus Limited	Director
	Gibson Walker Limited	Director
	Livestock Improvement Corporation Limited (and its wholly owned subsidiaries)	Director
	Miraka Limited	Director
	Skills International Limited	Director
	The Equanut Company Limited	Director
	Tūhana Consulting Limited (and its wholly owned subsidiaries)	Director
	Water Micro Limited	Director
P F Heslin	Forsyth Barr Custodians Limited	Chair
	Forsyth Barr Cash Management Nominees Limited	Chair
	Jedaka Limited	Director
	P Heslin Limited	Director
E G Johnson (Retired during the year)		
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chair
	Port Marlborough (New Zealand) Limited (and its wholly owned subsidiaries)	Chair
	Stone Farm Holdings Limited	Director
	ECL Group Limited (and its wholly owned subsidiaries)	Director
D J Taylor	Landcare Research New Zealand Limited	Chair
	Predator Free 2050 Limited	Chair
	Orion New Zealand Limited	Chair
	External Reporting Board	Deputy Chair
	OTPP New Zealand Forest Investments Limited	Director
	Silver Fern Farms Limited	Director
	Silver Fern Farms Cooperative Limited	Director
	The Aspen Institute New Zealand Limited	Director

Intern's interests	Entity	Relationship
S Pettigrew	Marks & Worth Lawyers and IP Specialists	Partner
	On your Marks Limited	Director
	Folding Hill Wine Company Limited	Director
	Opoho Leith Trustees Limited	Director
	Portobello Maintenance limited	Director
	Last Homely House Company Limited	Director
	Armstrong Business Consultancy Limited	Director
	Presbyterian Support Otago	Trustee

Employee remuneration

During the year, the number of employees of Port Otago Limited and its subsidiaries who received total remuneration in excess of $100,000 are:

Remuneration range ($)	Number of employees
610,001 – 620,000	1
400,001 – 410,000	1
280,001 – 290,000	1
260,001 – 270,000	1
240,001 – 250,000	1
230,001 – 240,000	1
220,001 – 230,000	6
210,001 – 220,000	1
190,001 – 200,000	1
180,001 – 190,000	3
160,001 – 170,000	1
150,001 – 160,000	3
140,001 – 150,000	2
130,001 – 140,000	5
120,001 – 130,000	17
110,001 – 120,000	9
100,001 – 110,000	47

Remuneration includes salary, short term incentives, motor vehicles and other sundry benefits received in the person's capacity as an employee. Incentive payments are paid in the following financial year to which they relate.

Directors of subsidiary companies

Directors fees for Chalmers Properties Limited are included in the Group Directors remuneration. No directors fees were paid by Fiordland Pilot Services Limited, Te Rapa Gateway Limited and South Freight Limited.

The following persons held office as Directors of subsidiary companies at 30 June 2019 or retired during the year as indicated (R):

Company	Director
Chalmers Properties Limited	D J Faulkner, T Campbell, T D Gibson, P F Heslin, E G Johnson (R), P F Rea, D J Taylor
Fiordland Pilot Services Limited	D J Faulkner, T Campbell, T D Gibson, P F Heslin, E G Johnson (R), P F Rea, D J Taylor
Te Rapa Gateway Limited	D J Faulkner, T Campbell, T D Gibson, P F Heslin, E G Johnson (R), P F Rea, D J Taylor
South Freight Limited	D J Faulkner, T Campbell, T D Gibson, P F Heslin, E G Johnson (R), P F Rea, D J Taylor

Directors' insurance

The Group provides insurance cover for directors under the following policies:

(a) Directors' liability insurance which ensures that generally Directors will incur no monetary loss as a result of action undertaken by them as Directors.

(b) Personal accident insurance which covers Directors while travelling on company business.

Use of company information

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

Auditors

The Auditor-General continues as the Company's auditor in accordance with the Port Companies Act 1988.
The Auditor-General has appointed Audit New Zealand to undertake the audit on its behalf.

The Group audit fee for the year ended 30 June 2019 was $138,000 (2018: $136,000).

For and on behalf of the Board of Directors

D J Faulkner
Chairman
3 September 2019

P F Heslin
Director
3 September 2019

Five Year Summary

Trade and operational analysis	2019	2018	2017	2016	2015
Container and bulk cargo vessel arrivals	458	442	415	391	432
Otago cruise vessel arrivals	115	87	79	70	76
Total ship calls	**573**	**529**	**494**	**461**	**508**
Container throughput (teu's)	208,600	204,700	178,200	172,400	172,800
Bulk cargo tonnes (000's)	1,764	1,686	1,534	1,343	1,408
Employees	343	329	311	309	310

Financial comparisons	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000
Revenue #	121,704	109,389	89,531	80,774	76,840
EBITDA from operations #	44,043	40,377	34,656	31,341	33,200
Surplus from operations (EBIT) #					
Port operations	15,452	12,788	12,588	10,592	12,643
Investment property	13,547	12,952	11,910	12,025	11,624
	28,999	25,740	24,498	22,617	24,267
Plus contribution from land development sales	5,005	5,414	1,495	597	0
Total group EBIT #	**34,004**	**31,154**	**25,993**	**23,214**	**24,267**
Unrealised net change in value of investment property	22,839	22,049	19,870	19,957	10,678
Profit for the year	49,302	43,856	38,700	34,099	52,435
Dividends for financial year *	8,450	9,000	7,500	7,300	7,250
Shareholders' equity	508,090	468,075	433,552	401,706	375,199
Total assets					
Port operations	224,472	226,506	200,638	197,247	193,100
Investment property	377,867	356,721	332,990	299,874	268,726
Total group	**602,339**	**583,227**	**533,628**	**497,121**	**461,826**
Cash flows					
Cash flows from operating activities	35,929	31,303	21,688	18,188	28,750
Port operations capital expenditure	(14,501)	(36,707)	(11,266)	(30,653)	(6,863)
Investment property purchases and improvements	(7,294)	(3,372)	(9,642)	(8,424)	(24,165)
Shareholders' equity	84%	80%	81%	81%	81%
Return on average equity **					
before unrealised revaluations	5.4%	4.8%	4.6%	3.9%	12.0%
after unrealised revaluations	10.1%	9.7%	9.3%	8.8%	14.6%
EBIT return on average assets #					
Port operations	6.5%	5.7%	6.3%	5.4%	6.5%
Property property	5.1%	5.3%	4.2%	4.2%	4.3%
Total group	**5.8%**	**5.6%**	**5.0%**	**4.7%**	**10.8%**

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note E5.
** Profit, divided by average shareholders' equity
# Excludes gain on sale of investment property and property, plant and equipment.

Performance Targets

A comparison of actual performance with the targets in the Statement of Corporate Intent is as follows:

	Actual	Target	Outcome
Trade			
Container throughput	208,600 TEUØ	200,000 TEUØ	Target achieved
Bulk cargo throughput	1.764 million tonnes	1.700 million tonnes	Target achieved
Number of container, bulk cargo and cruise vessel arrivals	573 vessels	540 vessels	Target achieved
Container terminal productivity			
Gross container crane productivity	26.0 lifts per crane hour	27.5 lifts per crane hour	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Health and Safety			
Total Recordable Injury Frequency Rate (TRIFR)	25.7	<10	Target not achieved
(frequency rate per 1 million work hours)			
Leadership to undertake 40 Visual Safety Leadership Audits/Observations per month	546	480	Target achieved
Financial performance			
Port Otago Group			
EBIT* return on average assets	5.8%	6.1%	Target not achieved
Return on shareholders' funds	10.1%	5.4%	Target achieved
Equity ratio	85%	80%	Target achieved
Debt servicing ratio (times) #	9.7	9.7	Target achieved
Port Operations			
EBIT* return on average assets	6.5%	6.2%	Target achieved
Return on shareholders' funds	9.5%	8.7%	Target achieved
Equity ratio	76%	72%	Target achieved
Debt servicing ratio (times) #	9.6	9.3	Target achieved
Chalmers Properties Limited			
EBIT* return on average assets	5.1%	5.9%	Target not achieved
Return on shareholders' funds	12.2%	5.2%	Target achieved
Equity ratio	88%	86%	Target achieved
Debt servicing ratio (times) #	9.7	10.1	Target not achieved

Øteu = twenty foot equivalent units
*EBIT = Earnings before interest, taxation, realised and unrealised investment property gains
Debt servicing ratio = number of times interest is covered by the earnings before interest, taxation, realised and unrealised investment property gains

Directory

Directors

David Faulkner	Chair
Paul Rea	Deputy Chair, Chair of Health and Safety Governance Committee
Tom Campbell	
Tim Gibson	
Pat Heslin	Chair Audit Committee
Ed Johnson	(retired 31 December 2018)
Jane Taylor	(appointed 10 June 2019)

Intern

Stephanie Pettigrew

Leadership team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Sean Bolt	GM Marine and Infrastructure
David Chafer	GM Property
Kevin Kearney	GM Operations
Craig Usher	Commercial Manager
Kate Walton	People and Capability Manager
Dylan Lee	Chief Information Officer
Gavin Schiller	Head of Safety
Deanna Matsopoulos	GM Supply Chain
Jodi Taylor	Executive Assistant

Address

15 Beach Street
Port Chalmers
www.portotago.co.nz

Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General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