Port Otago Limited Annual Report 2015

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OVERVIEW OF GROUP RESULTS

	2015 $million	2014 $million
Revenue	80.0	77.3
Operating profit before income tax	24.0	21.0
Profit for the year	52.4	31.8
Total assets	461.8	494.4
Shareholders' equity	375.2	344.8
Equity ratio	81%	70%
Net asset backing per share	$18.76	$17.24
Trade		
Container throughput (teu)	172,800	181,000
Conventional cargo volume (000's tonnes)	1,408	1,326
Number of vessel arrivals	508	501

FIVE YEAR SUMMARY

Trade analysis	2015	2014	2013	2012	2011
Number of ships	508	501	511	524	505
Cargo throughput (000's tonnes)	3,867	3,886	3,920	3,532	3,623

Financial comparisons	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000
Revenue #	80,005	77,273	78,026	70,148	74,213
EBITDA from operations #	33,200	33,950	34,439	30,069	32,442
Surplus from operations (EBIT) #					
Port operations	12,643	14,767	15,939	11,791	15,955
Investment property	11,624	11,378	10,944	10,560	9,157
Total group EBIT #	24,267	26,145	26,883	22,351	25,112
Unrealised net change in value of investment property	10,678	14,977	23,545	2,361	(5,178)
Profit for the year	52,435	31,824	38,092	12,789	9,400
Dividends for financial year *	7,250	7,100	12,000	11,750	12,250
Shareholders' equity	375,199	344,838	314,309	272,340	276,444
Total assets					
Port operations	193,100	176,518	167,778	159,947	164,937
Shares in listed companies	-	50,642	45,103	31,649	36,871
Investment property	268,726	267,220	230,167	205,548	200,076
Total group	461,826	494,380	443,048	397,144	401,884
Shareholders' equity	81%	70%	71%	69%	69%
Net asset backing per share	$18.76	$17.24	$15.72	$13.62	$13.82
Earnings per share (cents)	262.2	159.1	190.0	63.9	47.0
Dividends per share (cents) *	36.25	35.5	60.0	58.8	61.3
Return on equity **					
Before unrealised revaluations	12.0%	5.3%	4.8%	3.7%	5.3%
After unrealised revaluations	14.6%	9.7%	13.0%	4.6%	3.4%
EBIT return on assets #					
Port operations	6.5%	8.5%	9.7%	7.2%	9.8%
Investment property	4.3%	4.6%	5.0%	5.2%	4.5%
Total group	10.8%	5.6%	6.4%	5.6%	6.2%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 29.
** Profit, divided by average shareholders' equity.
# Excludes gain on disposal.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

The current year has again been an impressive one for the Port Otago Group with consistent trading profitability along with increases in property values and a gain from the sale of the share investment in Lyttelton Port Company Limited (LPC).

The Group profit for the year of $52.4 million included a $10.7 million increase in the valuation of the investment property portfolio and a $24.7 million contribution from the sale of the LPC share investment. This compares with the previous year's result of $31.8 million which included a $14.7 million increase in the value of investment property. The profit on the LPC share investment represents the realised gain since the shares were acquired in 2006.

Excluding dividend income received from the LPC investment, the Group operating profit, before unrealised revaluations and tax, was in line with the previous year's result at $20.8 million.

Highlights

In addition to the financial performance, the highlights during the year include:

- Commencement of the two-year, $30 million capital works programme to position Port Otago for the expected arrival of larger vessels. The four projects included in Port Otago's Next Generation $30 million development strategy are:
    - Shipping channel deepening
    - Berth sheet piling and deepening
    - Warehouse expansion
    - New tug and barge
- 172,800 teus handled
- Record log volume of 840,000 tonnes, an increase of 6%
- Completed the sale of the LPC shareholding which generated $64.8 million of cash
- Reduced bank borrowings from $120 million to $55 million
- Simplified the ownership of our land investment in the Hamilton area
- Sold an Auckland investment property for $12.4 million and two Dunedin ground lease properties for $9.7 million.

Health and Safety

Just following the end of the financial year, a serious incident occurred at Port Chalmers when one of Port Otago's 4-over-3 straddle carriers toppled over, injuring the driver. While the staff member is progressing well and is on track to make a full recovery, the accident has highlighted the need for us to continually strive to improve our health and safety culture and performance. The accident investigation has provided the opportunity to review our operational processes and this will be on-going.

At 30 June 2015 the Total Injury Frequency Rate (TIFR) on a rolling 12 month basis was 35 per million hours worked with 3 Lost Time Injuries (LTI's) and 16 Medically Treated Injuries (MTIs). This compares to 6 LTI's and 12 MTI's during the previous 12 months.

The Health and Safety Governance Committee continued to meet on a regular basis and is actively involved in challenging and supporting health and safety initiatives.

Next Generation Development Projects

Port Otago has resource consent to deepen the shipping channel to Port Chalmers to 15 metres. During the year, the deepening consents were activated and the physical works to deepen commenced. The first stage is to deepen to 13.5 metres by December 2015 and 14 metres by December 2016. By utilising our own dredge, the *New Era*, to complete the work and with more than 50% of the existing channel already at 14 metres, the cost of $8 million to complete the first stage is projected to be substantially cheaper than any other port in the country.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW


"Sheet piling" on the container wharf at Port Chalmers

The Port Chalmers berths, where the container vessels sit, will also be deepened. To safeguard the wharf structures ahead of the deepening work, a four month project to drive a row of "sheet piles" commenced in July 2015. Productivity by the contractor is on track for this project to be completed prior to the coming cruise ship season.

Expansion of the warehousing capacity to increase on-wharf dairy capacity by 25% has also commenced. This will provide an additional 9,500 m^2 of warehouse capacity at Port Chalmers.


Port Chalmers warehousing expansion

In addition, planning is underway to build an additional 3,800 m^2 warehouse at nearby Sawyers Bay.

Plans are also progressing to purchase a new tug and split-hopper barge to support our dredging activity during the channel deepening project and future maintenance dredging particularly in the upper harbour. This new tug will also be available to support the port's towage capability.

Financial Results

Operating profit before unrealised revaluations and tax was $24 million, compared to $21 million for last year. Included within revenue and other income was dividend income of $3.2 million and a $1.5 million gain on disposal of property and assets. This was made up of a gain on disposal of the two older tugs, *Rangi* and *Karetai* of $0.4 million and $1.1 million from the sale of part of our Hamilton land investment and two Dunedin ground leases.

Operating expenses have increased by $2.2 million compared to the previous year to $53.7 million with staff costs increasing by $1.6 million and depreciation and amortisation increasing by $1.1 million. Offsetting these increases in expenses has been a reduction in fuel and electricity costs and a reduction in purchased materials and services.

Following the reduction in borrowings from $120 million to $55 million during the year, financing costs reduced by $1.4 million to $4.2 million.

The equity ratio for the Group has increased to 81% from 70% last year following the sale of the share investment in LPC and several investment property sales which have been applied to the repayment of bank borrowings. The conservatively geared balance sheet places the Group in a strong position to undertake the Next Generation developments and also to consider other investment opportunities as they arise.

Dividends

Dividends of $7.25 million have been paid or declared for the year ended 30 June 2015 which is an increase from last year's ordinary dividend of $7.1 million.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

Port Operations

Operating profit before disposal gains, fair value measurements and tax, was $10.8 million from the port operating business, 3% higher than the $10.5 million generated from the previous year. EBITDA from port operations was $21.5 million compared to $22.2 million last year.

Trade

Container throughput of 172,800 teu (twenty foot equivalent units) was 5% lower than the previous year. Tranship volumes were down 2,000 teu as the comparative period included one vessel exchange where the entire container volume from one vessel is off-loaded and re-loaded on to another vessel when a vessel is changing its trade lane. Full import/export container volumes were down 4% and empty container throughput was down 3%. Dairy warehouse volumes at year end remained at high levels although these in-store volumes will be exported as next season's volumes are received.

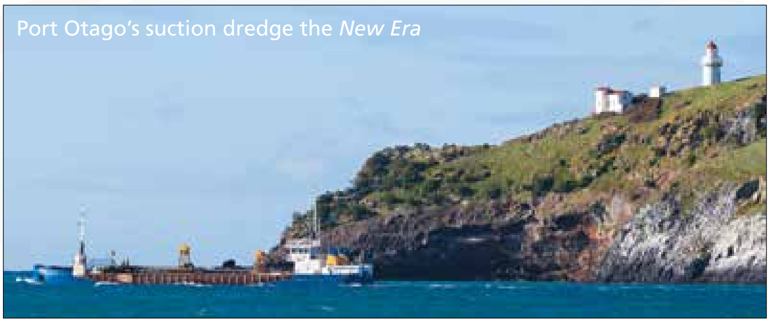
Following Maersk re-establishing a Primeport Timaru call during the year, there has been a reduction in South Canterbury cargo which was previously transported on the rail link we established between Timaru and Dunedin. This rail link provides additional direct shipping options to exporters and we maintain our view that the rail link is an important and sustainable contributor to future growth, particularly as vessel sizes increase as predicted.

Log exports were a record 840,000 tonnes, up 6% on the previous year. This is 60% of the total conventional tonnage which increased by 6% to 1.4 million tonnes compared to the previous year.

There were 508 vessel arrivals during the year compared to 501 vessel arrivals the previous year. Port Otago hosted 76 cruise vessels, down 2. The 2015/16 cruise season will be very similar to last year in terms of vessel numbers (73 confirmed so far) but passenger and crew numbers are projected to rise by 3%. In contrast, the 2016/17 season looks set for significant growth with 91 ships confirmed already. Like container ships, cruise ships are also getting bigger. The largest cruise ship to call on the New Zealand coast, the 348m long Ovation of the Seas, will make its first port call at Port Chalmers on 22 December 2016. This ship carries approximately 5,000 passengers and 1,500 crew and will call at Port Chalmers three times during the 2016/17 season.

Port Infrastructure

Capital expenditure for the year was $6.9million which included the final payment on acceptance of our new tug, the *Taiaroa*, paving works in Dunedin and Port Chalmers and other plant replacements. Significant progress was achieved in finalising and commencing the two-year $30 million Next Generation development projects which will allow larger container and cruise ships to access Port Chalmers while bolstering the Port's service offering to exporters. Port Otago has maintained an on-going programme of infrastructure upgrades to remain at the forefront of operating efficiency and productivity. The four projects under the Next Generation project are part of that on-going programme and highlight our commitment to remaining at the forefront of shipping and port activity in New Zealand.



Port Otago's suction dredge the *New Era*

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

Chalmers Properties Limited (CPL)

Rental income was $14.0 million for the year, an increase of 2% from the previous year with the full-year effect of the 2014 acquisition of an Auckland Bunnings Warehouse and several rental reviews. The sale of the Auckland investment property at Dalgety Drive was settled during the year for $12.4 million and two Dunedin ground-leases were sold. Several reinvestment opportunities were considered during the year but an appropriate property, which meets the Group's investment strategy, was not identified. Construction of the CHEP New Zealand office and warehouse in the Dunedin industrial precinct was also completed. This is an example of the development opportunity the Group will consider to redevelop older style improvements in the Dunedin industrial area.

CHEP Dunedin development

The CPL investment property portfolio slightly reduced from $265 million to $264 million following the disposal of several properties offset by a revaluation increase of $10.7 million. The Group also settled a partition agreement with one of our joint venture partners to purchase their share of industrial zoned land on the eastern side of the Te Rapa by-pass in Hamilton. As part of the agreement, our joint venture partner acquired our share of the employment and commercially zoned land on the western side of the Te Rapa by-pass. This agreement positions the Group to develop the industrial zoned land to meet market demand while simplifying our investment in Hamilton.

The location of the investment property portfolio is detailed in the following table:

	2015 $m	2014 $m	% Increase
Auckland	90	95	-5%
Hamilton	34	28	21%
Dunedin	140	142	-1%
	264	265	0%

The weighted average lease term of the Auckland and Dunedin investment properties, excluding the Dunedin ground leases, has increased to 8.2 years from 7.4 years at the start of the year.

Community Relations

The successful completion of the Next Generation projects requires the support of the local community. Communication and engagement is achieved through the continuing commitment to the Port Environment Liaison Committee which has again provided a critical link with the Port Chalmers and Careys Bay communities. The Committee continues to be chaired by Port Otago Director, Paul Rea. Consultation with local Iwi has also continued.

Directors and Otago Regional Council Representative

We would like to acknowledge the contribution that Vincent Pooch made as Director during a 12 year involvement with the Group, until his resignation in January 2015.

In July 2015, Wayne Scott retired as the Otago Regional Council's Director - Corporate Services. Wayne represented the Otago Regional Council at Board meetings, a role he has fulfilled since the establishment of Port Otago Limited in 1989. This relationship has enabled a valuable interface with the Otago Regional Council on the Group's activities.

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

Staff

On behalf of the Board we acknowledge and thank all staff for their contribution in delivering high levels of service to our customers and particularly in maintaining consistent productivity within container operations.

Outlook

The completion of the Next Generation projects, particularly dredging of the channel to Port Chalmers, ensures Port Otago is positioned to handle increased container volumes of export cargo produced in the lower South Island. The tidal window provided to larger vessels ensures that vessel operators can maximise their loadings and this safeguards Port Otago retaining multiple vessel calls which meet exporter's requirements.

Chalmers Properties is focussed on completing the industrial land development in Hamilton while being continually watchful of investment property opportunities that may arise.

For and on behalf of the Board

David Faulkner
Chairman

Geoff Plunket
Chief Executive

Port Otago tug *"Taiaroa"* – Photo courtesy of Alwyn Frost

PERFORMANCE TARGETS

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	172,800 teu[Ø]	192,500 teu[Ø]	Target not achieved
Conventional cargo throughput	1.408 million tonnes	1.300 million tonnes	Target achieved
Number of vessel arrivals	508 vessels	525 vessels	Target not achieved
Environmental			
Incidents leading to pollution of harbour	1 Incident	Nil	Approximately 800 litres of diesel fuel was discharged from a Port Otago tug which evaporated and dispersed naturally within a day or less. The incident was notified to the Otago Regional Council.
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Health & Safety			
Lost time injuries (LTIs)	0.55	0.00	Target not achieved
Medically treated injuries (MTIs)	2.90	2.00	Target not achieved
(frequency rate per 100,000 work hours)			

Financial performance

Port Otago Group	Actual	Target	Outcome
EBIT* return on assets	10.8%	6.1%	Target achieved
Return on shareholders' funds	14.6%	5.0%	Target achieved
Equity ratio	81%	73%	Target achieved
Debt servicing ratio (times)	11.8	4.6	Target achieved

Port operations and share investments	Actual	Target	Outcome
EBIT* return on assets	19.0%	7.3%	Target achieved
Return on shareholders' funds	25.9%	9.7%	Target achieved
Equity ratio	80%	63%	Target achieved
Debt servicing ratio (times)	23.4	3.9	Target achieved

Chalmers Properties Limited	Actual	Target	Outcome
EBIT* return on assets	4.3%	5.0%	Target not achieved
Return on shareholders' funds	8.1%	3.7%	Target achieved
Equity ratio	82%	82%	Target achieved
Debt servicing ratio (times)	4.7	5.8	Target not achieved

[Ø]teu = twenty foot equivalent units
*EBIT = Earnings before interest and taxation

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2015

	Notes	Group 2015 $000	Group 2014 $000	Parent Company 2015 $000	Parent Company 2014 $000
Revenue					
Port operations		62,852	63,281	62,382	62,968
Investment property rental		13,988	13,675	-	-
Dividend income		3,165	317	7,915	4,547
		80,005	77,273	70,297	67,515
Gain on disposal		1,579	628	501	4
Total revenue and other income		**81,584**	**77,901**	**70,798**	**67,519**
Expenses	3				
Staff costs		(27,259)	(25,671)	(26,670)	(25,038)
Restructuring costs		(135)	-	(135)	-
Fuel and electricity		(2,960)	(3,300)	(2,883)	(3,166)
Purchased materials and services		(14,635)	(14,856)	(13,226)	(13,475)
Depreciation and amortisation		(8,739)	(7,655)	(8,296)	(7,540)
Operating expenses		(53,728)	(51,482)	(51,210)	(49,219)
Operating profit before finance costs, unrealised revaluations and income tax		**27,856**	**26,419**	**19,588**	**18,300**
Net financing costs	4	(4,225)	(5,627)	(1,606)	(4,016)
Share of profit from equity accounted investment	17	324	250	-	-
Operating profit before unrealised revaluations and income tax		**23,955**	**21,042**	**17,982**	**14,284**
Non-operating income and expenses					
Gain on sale of available-for-sale investments	8	24,713	-	24,713	-
Subvention payment	26(a)	(95)	(103)	(95)	(103)
Unrealised net change in the value of investment property	10,12	10,678	15,574	-	-
Impairment of investment property inventory	11	-	(597)	-	-
Future sales value contract adjustment	27	-	(260)	-	-
Unrealised net change in value of interest rate swaps		(653)	1,665	(1,425)	1,176
		34,643	16,279	23,193	1,073
Profit before income tax		**58,598**	**37,321**	**41,175**	**15,357**
Income tax expense	5(a)	(6,163)	(5,497)	(2,536)	(2,987)
Profit for the year		**52,435**	**31,824**	**38,639**	**12,370**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Profit for the year		52,435	31,824	38,639	12,370
Other comprehensive income					
Movements that will be reclassified to profit & loss in subsequent periods					
Available-for-sale financial assets					
Unrealised increase/(decrease) in the value of share investments	8	(13,697)	5,539	(13,697)	5,539
Cash flow hedges					
Unrealised movement in hedging interest rate swaps and forward exchange contracts (net of tax)		23	266	791	303
Total comprehensive income for the year		**38,761**	**37,629**	**25,733**	**18,212**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Equity at the beginning of the year		344,838	314,309	142,156	131,044
Total comprehensive income for the year		38,761	37,629	25,733	18,212
Distribution to owners					
Dividends paid	29	(8,400)	(7,100)	(8,400)	(7,100)
Equity at the end of the year		**375,199**	**344,838**	**159,489**	**142,156**

The accompanying notes form part of these financial statements

CONSOLIDATED BALANCE SHEET

As at 30 June 2015

	Notes	Group 2015 $000	Group 2014 $000	Parent Company 2015 $000	Parent Company 2014 $000
Current assets					
Cash and cash equivalents		20,743	568	19,210	18
Trade and other receivables	6	8,924	10,328	6,962	8,775
Inventories		1,092	739	1,092	739
Property held for sale	12	2,046	17,518	-	-
Investment property inventories	11	13,409	6,294	-	-
Derivative financial instruments	21(a)	7	-	-	-
Finance leases	7	189	171	-	-
		46,410	35,618	27,264	9,532
Non-current assets					
Property, plant and equipment	9	158,643	159,879	158,241	159,728
Investment property	10	248,810	232,659	-	-
Property held for sale	12	-	8,023	-	-
Equity accounted investments	17	1,358	1,159	-	685
Shares in listed companies	8	-	50,642	-	50,642
Investment in subsidiaries		-	-	7,685	7,000
Derivative financial instruments	21(a)	-	205	-	-
Other financial assets		71	90	71	90
Finance leases	7	155	344	-	-
Intangible assets	13	6,379	5,761	5,467	5,761
		415,416	458,762	171,464	223,906
Total assets		**461,826**	**494,380**	**198,728**	**233,438**
Current liabilities					
Trade and other payables	14	7,548	6,177	5,760	3,988
Borrowings (secured)	16	-	11,852	-	-
Employee entitlements	15	3,926	3,577	3,872	3,537
Derivative financial instruments	21(a)	713	772	268	648
Provisions	27	-	260	-	-
Income tax		1,288	1,241	545	506
		13,475	23,879	10,445	8,679
Non-current liabilities					
Borrowings (secured)	16	54,700	107,730	15,500	69,380
Employee entitlements	15	1,311	1,124	953	886
Derivative financial instruments	21(a)	526	45	84	45
Deferred tax liabilities	5(c)	16,615	16,764	12,257	12,292
		73,152	125,663	28,794	82,603
Total liabilities		86,627	149,542	39,239	91,282
Equity					
Share capital	19	20,000	20,000	20,000	20,000
Reserves	20	355,199	324,838	139,489	122,156
Total equity		375,199	344,838	159,489	142,156
Total equity and liabilities		**461,826**	**494,380**	**198,728**	**233,438**

For and on behalf of the Board of Directors

D J Faulkner
Chairman

E J Harvey
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2015

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from port operations		64,764	62,611	64,157	62,294
Rental income		13,944	14,437	-	-
Dividends received		3,165	317	7,915	4,547
Interest received		762	487	987	4
Cash was disbursed to:					
Payments to employees and suppliers		(42,479)	(44,529)	(40,651)	(42,897)
Net GST received/(paid)		(425)	260	(354)	257
Interest paid		(4,612)	(6,105)	(3,180)	(4,019)
Subvention payments		(95)	(103)	(95)	(103)
Income tax paid		(6,274)	(6,736)	(2,839)	(3,905)
Net cash flows from operating activities	22	**28,750**	**20,639**	**25,940**	**16,178**
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of available-for-sale investments	8	61,657	-	61,657	-
Sale of property, plant and equipment		532	183	521	187
Sale of investment property		33,746	9,566	-	-
Repayment of lessee improvements		171	154	-	-
Cash was applied to:					
Purchase of property, plant and equipment		(6,863)	(15,719)	(6,534)	(15,658)
Purchase and improvements to investment property		(24,165)	(31,748)	-	-
Advances to subsidiaries		(163)	(188)	(18)	(35)
Interest capitalised	4	(207)	(582)	(94)	(184)
Net cash flows from investing activities		**64,708**	**(38,334)**	**55,532**	**(15,690)**
Cash flows from financing activities					
Cash was provided from:					
Proceeds from borrowings		40,933	49,747	-	18,670
Cash was applied to:					
Repayment of borrowings		(105,816)	(25,614)	(53,880)	(12,300)
Dividends paid	29	(8,400)	(7,100)	(8,400)	(7,100)
Net cash flows from financing activities		**(73,283)**	**17,033**	**(62,280)**	**(730)**
Increase (decrease) in cash held		**20,175**	**(662)**	**19,192**	**(242)**
Cash held at beginning of period		568	1,230	18	260
Cash held at end of period		**20,743**	**568**	**19,210**	**18**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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.

Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities in Dunedin. The principal activities of the Company, its subsidiaries, associates and share of joint ventures and joint operations ("the Group") are further described in note 23. The consolidated financial statements presented are those of Port Otago Limited, its subsidiaries, and share of joint ventures and joint operations ("the Group"). The ultimate parent of the Group is the Otago Regional Council.

These financial statements have been prepared to comply with the Companies Act 1993, the Financial Reporting Act 1993 and the Port Companies Act 1988. The financial statements of Port Otago Limited are for the year ended 30 June 2015. The financial statements were authorised for issue by the Board on 11 September 2015.

2. Summary of significant accounting policies

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 2015) 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.

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 instruments).

The following specific accounting policies have a significant effect on the measurement of results and financial position:

Basis of consolidation
The consolidated financial statements include those of Port Otago Limited (the parent 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 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.

All inter-company transactions are eliminated on consolidation.

Business combinations
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
Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The results

NOTES TO THE FINANCIAL STATEMENTS continued

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.

Joint arrangements

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. With these entities the assets, liabilities, revenues and expenses of the joint operation are accounted for on a proportionate basis.

Foreign currencies

(a) Functional presentation currency

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

(b) Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the balance date exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

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 items. 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 for any of the following reasons:

- 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.

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
Land improvements and buildings	10-50 years
Wharves, paving and dredging	15-70 years
Vessels and floating plant	5-30 years
Plant, equipment and vehicles	3-30 years

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. Independent investment property valuers are appointed on a 3 yearly rotational basis.

Other 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. For computer software the amortisation periods range from 1 to 5 years. 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.

NOTES TO THE FINANCIAL STATEMENTS continued

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the indentifiable assets of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least at each reporting date. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment
Assets are reviewed at each balance sheet date for impairment or 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 the Income Statement.

Leases – Finance leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Leases – Operating leases
Leases under which the lessor substantially retains all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

Inventories
Inventories 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 amount of inventories includes appropriate allowances for obsolescence and deterioration.

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.

Investment property inventories
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 net realisable value. Where costs exceed the net realisable value of the investment property inventories the resulting impairments are included in the Income Statement in the period in which they arise.

Borrowing costs
Borrowing costs directly attributable to the acquisition and/or construction of 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.

NOTES TO THE FINANCIAL STATEMENTS continued

Cash and cash equivalents

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 Statement of Cash Flows.

Financial instruments

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.

(a) Trade and other receivables including advances

Trade and other receivables, including advances, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in the Income Statement.

(b) Investments

Share investments held by the Group are classified as available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Investments in listed companies are valued at selling price as at balance date.

When parent company accounts are presented as part of annual financial reporting, investments in subsidiaries and associates are measured at cost.

(c) 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.

(d) 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.

(e) Managing financial risk

The Group's activities expose it primarily to the financial risks of changes in credit risk, interest rates and foreign exchange rates. The Group uses derivative financial instruments to minimise potential adverse effects from certain risk exposures.

- Interest rate risk

  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.

- Foreign exchange risk

  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.

- Market risk

  The fair value of shares in listed companies will fluctuate as a result of changes in market prices. Market prices for a particular share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market.

- Credit risk

  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

NOTES TO THE FINANCIAL STATEMENTS continued

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.

(f) Accounting for derivative 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.

For qualifying hedge relationships, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

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.

(g) Fair value estimation

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. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The fair value of listed shares traded actively on the Stock Exchange is based on quoted market prices at the balance date.

Employee benefits

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 bonus plans when it is probable that settlement will be required.

(a) Short term employee benefits

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.

(b) Long term employee benefits

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.

Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are calculated by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

NOTES TO THE FINANCIAL STATEMENTS continued

Revenue recognition

(a) Provision of services
Revenue from port services is recognised in the accounting period in which the actual service is provided to the customer.

(b) Rental income
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.

(c) 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.

(d) Dividend income
Dividend income is recognised when the right to receive payment is established, being the declaration date of the dividend.

(e) Sale of investments, investment property and property held for sale
Net gains or losses on the sale of investments, investment property and property held for sale 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.

Taxation

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 tax currently 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.

Deferred income 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 consolidated financial statements. Deferred income 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 income 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 income tax asset is realised or the deferred tax liability is settled. Deferred income 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.

Goods and services tax (GST)

The Income Statement and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Critical estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom, by definition, equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

NOTES TO THE FINANCIAL STATEMENTS continued

Estimate of fair value of investment property

At each balance date the Group obtains annual valuations of investment property, determined by registered independent valuers, in accordance with the accounting policy stated in the statement of accounting policies.

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information recent sales prices of similar properties in less active markets are used, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Changes in property market values, including changes arising from alterations to proposed and existing planning rules, may result in the fair values of investment property being different from previous estimates. The carrying amount of investment property is detailed in note 10.

Property, plant and equipment

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
- analysis of prior asset sales.

The Group has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amount of plant and equipment is disclosed in note 9.

Comparatives

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

Standards, amendments and interpretations issued but not yet effective

At the date of authorisation of these financial statements the following standards and interpretations were in issue but not yet effective, which are not expected to have a material impact but may affect presentation and disclosure:

NZ IFRS 9 Financial Instruments (effective for accounting period beginning 1 July 2017).

The Group does not intend to early adopt this standard.

Other standards and interpretations in issue but not yet effective are not expected to have an impact in the financial statements of the company in the period of initial application.

The Group did not early adopt any new or amended standards in 2015.

NOTES TO THE FINANCIAL STATEMENTS continued

3. Operating expenses

Expenses incurred in the financial year of $53.4 million for the Group (Parent: $51.5 million) include the following:

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Auditors' remuneration					
Audit services – Audit New Zealand		120	114	91	87
Audit services – PricewaterhouseCoopers		12	10	-	-
Total auditors' remuneration		**132**	**124**	**91**	**87**
Bad and doubtful debts					
Bad debts recovered		-	-	-	-
Bad debts written off		5	-	2	-
Total bad and doubtful debts		**5**	**-**	**2**	**-**
Directors' remuneration		312	343	233	247
Donations and community sponsorship		36	24	36	24
Loss on disposal of assets		-	42	-	42
Operating leases		921	895	1,015	1,005
Staff costs					
Wages and salaries		26,047	24,507	25,477	23,890
Defined contribution plan employer contributions		1,212	1,164	1,193	1,148
Total staff costs		**27,259**	**25,671**	**26,670**	**25,038**
Depreciation and amortisation					
Depreciation of property, plant and equipment	9	7,815	7,296	7,768	7,263
Amortisation of intangibles	13	854	272	521	269
Amortised leasing costs		70	87	7	8
Total depreciation and amortisation		**8,739**	**7,655**	**8,296**	**7,540**

4. Financing costs

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Interest income		753	496	987	4
Interest expense and bank facility fees		(5,186)	(6,713)	(2,688)	(4,212)
Foreign exchange gain/(loss)		1	8	1	8
Capitalised borrowing costs	18	207	582	94	184
		(4,225)	**(5,627)**	**(1,606)**	**(4,016)**

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes

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

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Profit before tax	**58,598**	**37,321**	**41,175**	**15,357**
Imputation credits	1,231	174	1,231	174
	59,829	37,495	42,406	15,531
Prima facie tax expense at 28%	(16,752)	(10,499)	(11,874)	(4,348)
Non-deductible items	(821)	(505)	(821)	(766)
Non assessable income	8,243	147	8,249	1,148
Unrealised change in investment property	1,647	4,329	-	-
Tax loss offset (via subvention payment)	95	103	95	103
Prior year adjustment	36	52	54	-
Deferred tax expense relating to the origination and reversal of temporary differences	158	702	530	702
Benefit of imputation credits	1,231	174	1,231	174
Income tax expense	**(6,163)**	**(5,497)**	**(2,536)**	**(2,987)**
Allocated between:				
Current tax	(6,452)	(6,135)	(3,215)	(3,328)
Prior period adjustments to current tax	131	103	149	103
Deferred tax	158	535	530	238

(b) Imputation credits available for use in subsequent periods:

	Group	
	2015 $000	2014 $000
Balance at end of year	**24,210**	**19,841**

Port Otago Limited is part of a consolidated tax group including its subsidiary, Chalmers Properties Limited.

No adjustment has been made for credits associated with tax payable due to the uncertainty regarding loss transfers.

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes (continued)

(c) The following are the major deferred tax liabilities and assets and the movements thereon during the current and prior reporting periods.

Group	Property, plant and equipment $000	Investment property $000	Financial instruments $000	Other $000	Total $000
Balance 1 July 2014	14,280	4,366	(154)	(1,728)	16,764
Charged / (credited) to hedging reserve direct to equity	-	-	9	-	9
Charged / (credited) to income statement	(265)	168	(184)	123	(158)
Balance at 30 June 2015	**14,015**	**4,534**	**(329)**	**(1,605)**	**16,615**
Balance 1 July 2013	14,895	4,760	(737)	(1,816)	17,102
Charged / (credited) to hedging reserve direct to equity	-	-	104	-	104
Charged / (credited) to income statement	(615)	(394)	479	88	(442)
Balance at 30 June 2014	**14,280**	**4,366**	**(154)**	**(1,728)**	**16,764**

Parent Company	Property, plant and equipment $000	Investment property $000	Financial instruments $000	Other $000	Total $000
Balance 1 July 2014	14,281	-	(193)	(1,796)	12,292
Charged / (credited) to hedging reserve direct to equity	-	-	307	-	307
Charged to subsidiary on novation of interest rate swaps	-	-	187	-	187
Charged / (credited) to income statement	(338)	-	(400)	209	(529)
Balance at 30 June 2015	**13,943**	**-**	**(99)**	**(1,587)**	**12,257**
Balance 1 July 2013	14,895	-	(641)	(1,842)	12,412
Charged / (credited) to hedging reserve direct to equity	-	-	118	-	118
Charged / (credited) to income statement	(614)	-	330	46	(238)
Balance at 30 June 2014	**14,281**	**-**	**(193)**	**(1,796)**	**12,292**

NOTES TO THE FINANCIAL STATEMENTS continued

6. Trade and other receivables

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Trade receivables	7,540	9,568	6,387	8,149
Amount owing by subsidiaries and related parties	863	175	88	88
Prepayments	521	585	487	538
Balance at end of year	**8,924**	**10,328**	**6,962**	**8,775**

7. Finance leases

	Minimum future lease payments Group		Present value of minimum future lease receivables Group	
	2015 $000	2014 $000	2015 $000	2014 $000
Repayments due:				
No later than 1 year	214	214	189	171
Later than 1 year and not later than 5 years	160	374	155	344
Minimum future lease payments	374	588	344	515
Gross finance lease receivables	374	588	344	515
Less unearned finance income	(30)	(73)	-	-
Present value of minimum lease payments	**344**	**515**	**344**	**515**
Included in the financial statements as:				
Current			189	171
Non-current			155	344
			344	**515**

The finance lease receivable relates to the Group funding of tenant improvements to an investment property. A lease commenced in April 2007 for an initial period of 10 years and the finance lease receivable will be recovered over this period. The pre-tax interest rate applicable to the finance lease receivable is 10.2%. Interest income is recognised on a consistent basis to produce a constant rate of return on the net investment.

8. Shares in listed companies

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Balance at beginning of the year	50,642	45,103	50,642	45,103
Unrealised increase in value of share investments	-	5,539	-	5,539
Realised on sale of share in listed companies	(50,642)	-	(50,642)	-
Balance at end of year	**-**	**50,642**	**-**	**50,642**

15,825,477 shares in Lyttelton Port Company (LPC) were sold during the year at a price of $3.95 per share, conditional on receipt of a special dividend of $0.20 per share ($3.165 million) from LPC. The sale of the shareholding realised a $24.712 million gain being the sale proceeds, net of disposal costs, of $61.657 million less the original cost of the investment of $36.945 million (compared to the carrying value of $50.642 million at 30 June 2014). In prior years Port Otago has recorded gains on this investment of $13.697 million through other comprehensive income as this investment has increased in value. These previously unrealised gains were realised from the available for sale reserve into profit and loss during the year.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, plant and equipment

The following property, plant and equipment information reflects the consolidated Group amounts.

Group

Current period to 30 June 2015

	Land $000	Buildings and improvements $000	Wharves and berth dredging $000	Plant, equipment and vehicles $000	Capital work in progress $000	Total $000
Cost						
Balance 1 July 2014	34,222	46,629	54,877	81,699	10,799	228,226
Additions	173	2,527	426	12,192	(8,713)	6,605
Disposals	-	-	-	(360)	-	(360)
Cost at 30 June 2015	**34,395**	**49,156**	**55,303**	**93,531**	**2,086**	**234,471**
Accumulated depreciation						
Balance 1 July 2014	-	12,979	14,112	41,256	-	68,347
Depreciation for period	-	1,782	1,613	4,420	-	7,815
Disposals	-	-	-	(334)	-	(334)
Depreciation at 30 June 2015	**-**	**14,761**	**15,725**	**45,342**	**-**	**75,828**
Net book value						
At 30 June 2014	34,222	33,650	40,765	40,443	10,799	159,879
At 30 June 2015	**34,395**	**34,395**	**39,578**	**48,189**	**2,086**	**158,643**

Comparative period to 30 June 2014

	Land $000	Buildings and improvements $000	Wharves and berth dredging $000	Plant, equipment and vehicles $000	Capital work in progress $000	Total $000
Cost						
Balance 1 July 2013	34,304	38,914	51,680	80,316	11,116	216,330
Additions	-	7,258	2,973	4,476	-	14,707
Disposals	(82)	(191)	-	(3,104)	-	(3,377)
Transfers	-	648	224	11	(317)	566
Cost at 30 June 2014	**34,222**	**46,629**	**54,877**	**81,699**	**10,799**	**228,226**
Accumulated depreciation						
Balance 1 July 2013	-	10,726	12,297	40,273	-	63,296
Depreciation for period	-	1,654	1,591	4,051	-	7,296
Disposals	-	(49)	-	(3,079)	-	(3,128)
Transfers	-	648	224	11	-	883
Depreciation at 30 June 2014	**-**	**12,979**	**14,112**	**41,256**	**-**	**68,347**
Net book value						
At 30 June 2013	34,304	28,188	39,383	40,043	11,116	153,034
At 30 June 2014	**34,222**	**33,650**	**40,765**	**40,443**	**10,799**	**159,879**

NOTES TO THE FINANCIAL STATEMENTS continued

10. Investment property

	Notes	Group 2015 $000	Group 2014 $000
Balance at beginning of year		232,659	217,210
Property purchased		9,867	27,358
Property improvements during the period		5,794	1,479
Property sold		(8,926)	(5,300)
Net movement in prepaid leasing costs		(83)	61
Net movement in incentives		27	122
Capitalised borrowing costs	18	113	214
Unrealised change in the value of investment property		9,601	13,366
Transfer to property receivable		(242)	-
Transfer from investment property inventories	11	-	455
Transfer to property held for sale	12	-	(22,306)
Balance at end of year		**248,810**	**232,659**
Comprising:			
Property portfolio at cost		92,591	80,973
Revaluation		156,219	151,686
		248,810	**232,659**
Valued at 30 June balance date as determined by:			
At discounted contract selling price			
Colliers International NZ Limited		80,985	156,170
CBRE Limited		167,825	58,416
Seagar and Partners (Manukau) Limited		-	18,073
Property recorded at fair value		**248,810**	**232,659**

The Group's investment properties are valued annually at fair value effective 30 June. Fair value reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of the current market conditions.

All valuations were completed by registered independent valuers who conform to the New Zealand Property Institute Practice Standards. The valuers have extensive market knowledge in the types of investment properties owned by the Group.

All investment properties were valued based on open market evidence including market rentals, land sales and yield information available to the valuers.

Included within the gross values for investment properties are capitalised leasing costs and capitalised rental incentives. These costs represent expenditure incurred by the Group in relation to letting of property. These costs are initially recorded as an asset and amortised over the life of the lease they relate to. At balance date $220,000 (last year: $302,000) of capitalised leasing costs and $400,000 (last year: $301,000) of capitalised leasing incentives are included in the gross balance of investment properties.

There were no significant contractual obligations of a capital and/or maintenance nature relating to the current investment property portfolio at balance date (last year: nil).

NOTES TO THE FINANCIAL STATEMENTS continued

10. Investment property (continued)

The potential future cash flows have been capitalised using the following ranges:

	Group	
	2015 $000	2014 $000
Otago Region		
Lease term	0-21 years	0-21 years
Capitalisation rate	5.5% to 9.3%	0% to 9.5%
Occupancy rate	83% to 100%	0% to 100%
Auckland Region		
Lease term	1-13 years	3-14 years
Capitalisation rate	6.3% to 9.3%	6.3% to 9.5%
Occupancy rate	100%	78% to 100%

11. Investment property inventories

	Notes	Group	
		2015 $000	2014 $000
Balance at beginning of year		6,294	6,150
Transfer (to) from investment property	10	-	(455)
Property purchased		6,508	-
Property sold		-	(1,734)
Development costs		(470)	2,747
Capitalised borrowing costs	18	-	183
Unrealised change in the value of investment property		480	-
Impairment of inventory		597	(597)
Balance at end of year		**13,409**	**6,294**
Property portfolio cost component		13,760	6,488
Property revaluation component		(351)	(194)
Total		**13,409**	**6,294**

Impairment adjustments

As a result of the valuation at 30 June 2015 impairment adjustments of $597,000 relating to the previous year were reversed. The orginal impairment adjustment was to record the inventories at their net realisable value which was lower than the inventories cost.

Developed land for sale

The Group previously held a 50% interest in the Hamilton Joint Venture (HJV). During the year the group acquired the remaining 50% interest in HJV. The developed land on hand totalling 4.3 hectares (2014: 4.3 hectares) is being actively marketed for sale. The carrying value of the land of $6.70 million (2014: Group 50% share $2.9 million) reflects the cost of the developed land. Colliers in their June 2015 valuation stated a net realisable value of $6.87 million which is based upon $160/m^2 (2014: Seagars $135/m^2).

The Group previously held a 33.3% interest in the Hamilton Porter JV (HPJV). During the year the group acquired a further 33.3% interest in HPJV. The developed land on hand totalling 5.2 hectares (2014: 5.2 hectares) is being actively marketed for sale. The carrying value of the land of $8.13 million (Group 66.7% share $5.42 million), (2014: $7.07 million, Group 33.3% share $2.4 million) reflects the cost of the developed land. Colliers in their June 2015 valuation stated a net realisable value of $8.36 million which is based upon $160/m^2 (2014: Seagars $135/m^2).

NOTES TO THE FINANCIAL STATEMENTS continued

11. Investment property inventories (continued)

Land in development

Land in development comprises the Group's 66.7% share of 2.4 hectares of land within HPJV which is subject to further work prior to its completion. Once complete a further 2.2 hectares of land will be available for sale. In their valuation at 30 June 2015 the Colliers' valuation of the investment property in development is based upon $74/m^2 (30 June 2014: Seagars $135/m^2).

12. Property held for sale

	Notes	Group 2015 $000	Group 2014 $000
Balance at beginning of year		25,541	2,990
Transfer from investment property	10	-	22,306
Acquired on partition		1,023	-
Development costs		268	4
Property sold		(24,786)	(1,967)
Unrealised change in the value of property held for sale		-	2,208
Balance at end of year		**2,046**	**25,541**
Comprising:			
Property held for sale - at cost		1,203	17,478
Property held for sale - valuation component at the time of transfer		843	8,063
		2,046	**25,541**
Analysed as:			
Current		2,046	17,518
Non-current		-	8,023
		2,046	**25,541**

Property held for sale comprises:

Sale of 10% of the original Newby 1 block to the former CPL Chief Executive

The Hamilton Joint Venture (HJV) contracted to sell 10% of the original Newby 1 block to a related party. Note 26(b) contains details of the contract terms. This land is classified as property held for sale since the land is to be recovered through a sales transaction rather than through continuing use. During the period the Group negotiated and settled a partition agreement whereby our joint venture partners 50% interest in the original Newby 1 block was acquired. The Group's 100% share of the remaining property held for sale under the related party contract is $2.05 million (last year: 50% share - $1.02 million).

NOTES TO THE FINANCIAL STATEMENTS continued

13. Intangible assets

The following intangible asset information reflects the consolidated Group amounts.

Group

Current period to 30 June 2015

	Notes	Computer software $000	Resource consents $000	Goodwill $000	Total $000
Cost					
Balance 1 July 2014		5,149	5,203	-	10,352
Additions		222	31	1,219	1,472
Disposals		-	-	-	-
Balance at 30 June 2015		**5,371**	**5,234**	**1,219**	**11,824**
Accumulated amortisation					
Balance 1 July 2014		4,591	-	-	4,591
Amortisation expense	3	255	268	331	854
Disposals		-	-	-	-
Balance at 30 June 2015		**4,846**	**268**	**331**	**5,445**
Net book value					
At 30 June 2014		558	5,203	-	5,761
At 30 June 2015		**525**	**4,966**	**888**	**6,379**

Group

Comparative period to 30 June 2014

	Notes	Computer software $000	Resource consents $000	Goodwill $000	Total $000
Cost					
Balance 1 July 2013		5,561	3,905	-	9,466
Additions		232	1,298	-	1,530
Disposals		(644)	-	-	(644)
Balance at 30 June 2014		**5,149**	**5,203**	**-**	**10,352**
Accumulated amortisation					
Balance 1 July 2013		4,963	-	-	4,963
Amortisation expense	3	272	-	-	272
Disposals		(644)	-	-	(644)
Balance at 30 June 2014		**4,591**	**-**	**-**	**4,591**
Net book value					
At 30 June 2013		598	3,905	-	4,503
At 30 June 2014		**558**	**5,203**	**-**	**5,761**

NOTES TO THE FINANCIAL STATEMENTS continued

13. Intangible assets (continued)

Computer software
Computer software assets are stated at cost, less accumulated amortisation and impairment.

Resource consents
Resource consents relate to the granting of the Next Generation consents which will allow Port Otago to deepen 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.

Goodwill
Goodwill relates to goodwill arising on the acquisition of one of our joint venture partners 33.3% interest in the Hamilton Porter Joint Venture during the period. Goodwill was tested for impairment as at 30 June 2015 based upon the future cash flows generated from the Hamilton industrial subdivision development with the unrealised revaluation increase in the value of the acquired 33.3% interest in the investment property amortised. Future increases in the value of the property will be amortised against the carrying value of the goodwill.

14. Trade and other payables

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Accounts payable	6,545	4,243	5,072	2,919
Other accrued charges	974	1,285	688	1,069
Property deposits received	29	649	-	-
Balance at end of year	**7,548**	**6,177**	**5,760**	**3,988**

15. Employee entitlements

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Accrued wages, salaries and other benefits		606	472	552	432
Annual leave		3,264	3,057	3,264	3,057
Long service leave		819	731	819	731
Retiring allowances		134	154	134	154
Sick leave		56	49	56	49
Related party incentive	26(b)	358	238	-	-
Balance at end of year		**5,237**	**4,701**	**4,825**	**4,423**
Analysed as:					
Current		3,926	3,577	3,872	3,537
Non-current		1,311	1,124	953	886
		5,237	**4,701**	**4,825**	**4,423**

NOTES TO THE FINANCIAL STATEMENTS continued

16. Borrowings

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Bank borrowings	**54,700**	**119,582**	**15,500**	**69,380**
Analysed as:				
Current	-	11,852	-	-
Non-current	54,700	107,730	15,500	69,380
	54,700	**119,582**	**15,500**	**69,380**

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

(a) Port Otago Group facility

The Group has a $100 million (last year: $130 million) committed facility with ANZ Bank New Zealand Limited. The Group may draw funding for terms ranging from call to the termination of the agreement, which is 31 December 2017.

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.

(b) The Hamilton Joint Venture facility

The Group had a 50% interest in The Hamilton Joint Venture (HJV) which had an $18 million committed facility with ANZ Bank New Zealand Limited with the Group's 50% share amounting to $9 million. Under a partition agreement entered into during the year between the joint venture partners, the $18 million facility was repaid (Group's 50% share: $9 million), the facility terminated and the first registered mortgage over the joint venture land holdings, general security agreement and guarantees provided by the owners of the joint venture participants were released.

(c) Hamilton Porter Joint Venture facility

The Group had a 33.3% interest in the Hamilton Porter Joint Venture (HPJV) which had a $7.5 million committed facility with ANZ Bank New Zealand Limited. Under a partition agreement entered into during the year, the Group increased the interest to 66.7% and the $7.5 million (Group's 33.3% share: $2.5 million) facility was repaid and the facility terminated. The first registered mortgage over the joint venture land holdings, general security agreement and guarantees provided from the owners of the joint venture participants were released.

In addition, the HPJV had a $6.5 million short term advances facility with the ANZ Bank New Zealand Limited. During the year the drawn borrowings were repaid and the facility was terminated. The first registered mortgage over the joint venture land holdings, general security agreement and guarantees provided from the owners of the joint venture participants were released.

NOTES TO THE FINANCIAL STATEMENTS continued

17. Equity accounted investments

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Ordinary shares at cost	685	-	-	685
Balance at beginning of year	1,159	1,039	685	-
Sale of shareholding to South Freight Limited	-	-	(685)	-
Share of profit from joint ventures recognised in the Income Statement	324	250	-	-
Distributions from joint ventures	(125)	(130)	-	-
Balance at end of year	**1,358**	**1,159**	**-**	**685**

During the period, Port Otago Limited's 50% shareholding in Icon Logistics Limited (2014: 50%) was acquired by South Freight Limited. South Freight Limited is a wholly owned subsidiary of Port Otago Limited. Note 23a includes summarised financial information of Icon Logistics Limited.

18. Capitalised borrowing costs

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Borrowing costs capitalised during the year	4	207	582	94	184
Weighted average capitalisation rate on funds borrowed		5.81%	5.59%	5.78%	5.78%

19. Share capital

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Issued and paid up capital 20,000,000 shares	20,000	20,000	20,000	20,000

All shares carry equal voting rights and the right to share in any surplus on the winding up of the Group.

20. Reserves

Retained earnings reserve

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

Property revaluation reserve

The revaluation reserve relates to the revaluation of investment property.

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.

Available-for-sale revaluation reserve

The available-for-sale revaluation reserve arises on the revaluation of shares in listed companies. Where a financial asset is sold that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in the Income Statement. Where a financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS continued

20. Reserves (continued)

Capital management strategy

The Company's capital is its equity, which comprises retained earnings noted above. Equity is represented by net assets.

The owners of the Company require the Board to manage its reserves, expenses, assets and liability transactions prudently. The Company's equity is therefore managed as a by-product of these prudent transactions.

The objective of managing the Company's equity is to ensure that the Company effectively achieves its objectives while providing a financial return to the owners.

The Company manages capital on the basis of the equity ratio with a target range of 65% to 75%.

	Notes	Group		Parent Company	
		2015 $000	2014 $000	2015 $000	2014 $000
Retained earnings					
Balance at beginning of year		152,608	140,252	109,524	104,254
Profit for the year		52,435	31,824	38,639	12,370
Less dividends paid	29	(8,400)	(7,100)	(8,400)	(7,100)
Transfers (to)/from property revaluation reserve:					
Realised on property sold		19,732	2,609	-	-
Unrealised change in the value of investment property	10,11,12	(10,678)	(14,977)	-	-
Balance at end of year		**205,697**	**152,608**	**139,763**	**109,524**
(a) Property revaluation reserve:					
Balance at beginning of year		159,555	147,187	-	-
Transfers from/(to) retained earnings:					
Realised on property sold		(19,732)	(2,609)	-	-
Change in value of investment property	10,11,12	10,678	14,977	-	-
Balance at end of year		**150,501**	**159,555**	**-**	**-**
(b) Available-for-sale revaluation reserve – shares in listed companies:					
Balance at beginning of year		13,697	8,158	13,697	8,158
Valuation gain/(loss) recognised		-	5,539	-	5,539
Realised on sale of available-for-sale investments		(13,697)	-	(13,697)	-
Balance at end of year		**-**	**13,697**	**-**	**13,697**
(c) Hedging reserve:					
Balance at beginning of year		(1,022)	(1,288)	(1,065)	(1,368)
Change in fair value of interest rate swaps and forward exchange contracts		32	370	1,098	421
Deferred tax arising on fair value movement		(9)	(104)	(307)	(118)
Balance at end of year		**(999)**	**(1,022)**	**(274)**	**(1,065)**
Total reserves		**355,199**	**324,838**	**139,489**	**122,156**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements

(a) Financial instrument categories

The accounting policies for financial instruments have been applied to the line items below which illustrate the potential profit and equity (excluding retained earnings) impact for reasonably possible market movements where the impact is significant.

Group 2015	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	20,743	-	20,743
Trade and other receivables	-	8,924	-	8,924
Derivative financial instruments	7	-	-	7
Finance leases	-	189	-	189
Total current assets	7	29,856	-	29,863
Listed shares	-	-	-	-
Derivative financial instruments	-	-	-	-
Finance leases	-	155	-	155
Total non-current assets	-	155	-	155
Total assets	**7**	**30,011**	**-**	**30,018**
Liabilities				
Trade and other payables	-	-	7,548	7,548
Secured loans	-	-	-	-
Derivative financial instruments	713	-	-	713
Total current liabilities	713	-	7,548	8,261
Secured loans	-	-	54,700	54,700
Derivative financial instruments	526	-	-	526
Total non-current liabilities	526	-	54,700	55,226
Total liabilities	**1,239**	**-**	**62,248**	**63,487**

Group 2014	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	568	-	568
Trade and other receivables	-	10,328	-	10,328
Finance leases	-	171	-	171
Total current assets	-	11,067	-	11,067
Listed shares	50,642	-	-	50,642
Derivative financial instruments	205	-	-	205
Finance leases	-	344	-	344
Total non-current assets	50,847	344	-	51,191
Total assets	**50,847**	**11,411**	**-**	**62,258**
Liabilities				
Trade and other payables	-	-	6,177	6,177
Secured loans	-	-	11,852	11,852
Derivative financial instruments	772	-	-	772
Total current liabilities	772	-	18,029	18,801
Secured loans	-	-	107,730	107,730
Derivative financial instruments	45	-	-	45
Total non-current liabilities	45	-	107,730	107,775
Total liabilities	**817**	**-**	**125,759**	**126,576**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(a) Financial instrument categories (continued)

The accounting policies for financial instruments have been applied to the line items below which illustrate the potential profit and equity (excluding retained earnings) impact for reasonably possible market movements where the impact is significant.

Parent Company 2015	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	19,210	-	19,210
Trade and other receivables	-	6,962	-	6,962
Total current assets	-	26,172	-	26,172
Listed shares	-	-	-	-
Derivative financial instruments	71	-	-	71
Total non-current assets	71	-	-	71
Total assets	**71**	**26,172**	**-**	**26,243**
Liabilities				
Trade and other payables	-	-	5,760	5,760
Derivative financial instruments	268	-	-	268
Total current liabilities	268	-	5,760	6,028
Secured loans	-	-	15,500	15,500
Derivative financial instruments	84	-	-	84
Total non-current liabilities	84	-	15,500	15,584
Total liabilities	**352**	**-**	**21,260**	**21,612**

Parent Company 2014	Designated at fair value $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents	-	18	-	18
Trade and other receivables	-	8,775	-	8,775
Total current assets	-	8,793	-	8,793
Listed shares	50,642	-	-	50,642
Total non-current assets	50,642	-	-	50,642
Total assets	**50,642**	**8,793**	**-**	**59,435**
Liabilities				
Trade and other payables	-	-	3,988	3,988
Derivative financial instruments	648	-	-	648
Total current liabilities	648	-	3,988	4,636
Secured loans	-	-	69,380	69,380
Derivative financial instruments	45	-	-	45
Total non-current liabilities	45	-	69,380	69,425
Total liabilities	**693**	**-**	**73,368**	**74,061**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(b) Credit quality of financial assets

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

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Cash at bank and term deposits (Credit rating AA-)	20,743	568	19,210	18
Debtors and other receivables (Non-rated - nil defaults)	8,924	10,328	6,962	8,775
Finance leases (Non-rated - nil defaults)	344	515	-	-
Total credit risk	**30,011**	**11,411**	**26,172**	**8,793**

Debtors 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.

Liquidity risk

Management of 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.

The majority of the Group's customers are New Zealand based agents or branches of international shipping lines servicing New Zealand importers and exporters. As such there are no concentrations of geographical risk outside New Zealand.

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

	Group		Parent Company	
	2015 Gross receivable $000	2014 Gross receivable $000	2015 Gross receivable $000	2014 Gross receivable $000
Not past due	6,139	7,634	5,056	6,244
Past due 30-60 days	1,377	1,485	1,310	1,474
Past due 61-90 days	-	342	-	341
Past due more than 90 days	24	107	21	90
Total	**7,540**	**9,568**	**6,387**	**8,149**

Group interest rate risk

The Group uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping those borrowings from floating rates to fixed rates.

During the period $28.6 million of underlying debt and interest rate swaps was novated from the Parent to Chalmers Properties Limited as repayment of an intercompany advance from the Parent to Chalmers Properties Limited.

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

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Maturing in less than one year	14,500	4,650	-	2,900
Maturing between one and five years	35,200	39,000	10,500	33,500
Maturing in more than five years	5,000	23,700	5,000	15,600
Total credit risk	**54,700**	**67,350**	**15,500**	**52,000**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(c) Contractual maturity analysis of financial instruments

Financial assets

The table below analyses financial assets into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date.

	Weighted average effective interest rate	Carrying amount $000	Contractual cash flows $000	Less than 1 Year $000	2-5 years $000	Greater than 5 years $000
Group 2015						
Cash and cash equivalents	-	20,743	20,743	20,743	-	-
Net settled derivative liabilities	-	7	8	8	-	-
Debtors and other receivables	-	8,924	8,924	8,924	-	-
Finance leases	10.2%	344	374	214	160	-
Total	**-**	**30,018**	**30,049**	**29,889**	**160**	**-**
Parent Company 2015						
Cash and cash equivalents	-	19,210	19,210	19,210	-	-
Debtors and other receivables	-	6,962	6,962	6,962	-	-
Total	**-**	**26,172**	**26,172**	**26,172**	**-**	**-**
Group 2014						
Cash and cash equivalents	-	568	568	568	-	-
Debtors and other receivables	-	10,328	10,328	10,328	-	-
Finance leases	10.2%	515	588	214	374	-
Total	**-**	**11,411**	**11,484**	**11,110**	**374**	**-**
Parent Company 2014						
Cash and cash equivalents	-	18	18	18	-	-
Debtors and other receivables	-	8,775	8,775	8,775	-	-
Total	**-**	**8,793**	**8,793**	**8,793**	**-**	**-**

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	2-5 years $000	Greater than 5 years $000
Group 2015						
Creditors and other payables	-	(7,548)	(7,548)	(7,548)	-	-
Net settled derivative liabilities	-	(1,239)	(1,388)	(838)	(550)	-
Secured loans	5.6%	(54,700)	(60,365)	(17,154)	(38,114)	(5,097)
Total	**-**	**(63,487)**	**(69,301)**	**(25,540)**	**(38,664)**	**(5,097)**
Parent Company 2015						
Creditors and other payables	-	(5,760)	(5,760)	(5,760)	-	-
Net settled derivative liabilities	-	(352)	(384)	(300)	(84)	-
Secured loans	5.9%	(15,500)	(17,480)	(913)	(11,470)	(5,097)
Total	**-**	**(21,612)**	**(23,624)**	**(6,973)**	**(11,554)**	**(5,097)**
Group 2014						
Creditors and other payables	-	(6,177)	(6,177)	(6,177)	-	-
Net settled derivative liabilities	-	(612)	(715)	(944)	192	38
Secured loans	5.4%	(119,582)	(129,205)	(63,803)	(60,087)	(5,316)
Total	**-**	**(126,371)**	**(136,097)**	**(70,924)**	**(59,895)**	**(5,278)**
Parent Company 2014						
Creditors and other payables	-	(3,988)	(3,988)	(3,988)	-	-
Net settled derivative liabilities	-	(693)	(800)	(795)	(43)	38
Secured loans	5.7%	(69,380)	(76,958)	(23,340)	(48,302)	(5,316)
Total	**-**	**(74,061)**	**(81,746)**	**(28,123)**	**(48,345)**	**(5,278)**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(d) Sensitivity analysis of financial instruments

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

Group	2015				2014			
	-100bps		+100bps		-100bps		+100bps	
	Profit $000	Other equity $000	Profit $000	Other equity $000	Profit $000	Other equity $000	Profit $000	Other equity $000
Interest rate risk								
Financial liabilities								
Derivatives								
- hedge accounted	-	(229)	-	547	-	(1,105)	-	25
- non-hedge accounted	(155)	-	153	-	(386)	-	378	-
Borrowings	547	-	(547)	-	1,196	-	(1,196)	-
Total sensitivity to interest rate risk	**392**	**(229)**	**(394)**	**547**	**810**	**(1,105)**	**(818)**	**25**

	2015				2014			
	-10%		+10%		-10%		+10%	
	Profit	Other equity	Profit	Other equity	Profit	Other equity	Profit	Other equity
Equity price risk								
Financial assets								
Shares in listed companies	-	-	-	-	-	(5,064)	-	5,064
Total sensitivity to equity price risk	**-**	**-**	**-**	**-**	**-**	**(5,064)**	**-**	**5,064**

Parent Company	2015				2014			
	-100bps		+100bps		-100bps		+100bps	
	Profit $000	Other equity $000	Profit $000	Other equity $000	Profit $000	Other equity $000	Profit $000	Other equity $000
Interest rate risk								
Financial liabilities								
Derivatives								
- hedge accounted	-	(259)	-	286	-	(851)	-	815
- non-hedge accounted	(51)	-	50	-	(322)	-	315	-
Borrowings	155	-	(155)	-	694	-	(694)	-
Total sensitivity to interest rate risk	**104**	**(259)**	**(105)**	**286**	**372**	**(851)**	**(379)**	**815**

	2015				2014			
	-10%		+10%		-10%		+10%	
	Profit	Other equity	Profit	Other equity	Profit	Other equity	Profit	Other equity
Equity price risk								
Financial assets								
Shares in listed companies	-	-	-	-	-	(5,064)	-	5,064
Total sensitivity to equity price risk	**-**	**-**	**-**	**-**	**-**	**(5,064)**	**-**	**5,064**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(e) Fair value measurements recognised in the Statement of Comprehensive Income

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

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

Financial instruments at fair value	Group 2015				Group 2014			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value								
Shares in listed companies	-	-	-	-	50,642	-	-	50,642
Investment property inventories	-	-	13,409	13,409	-	-	6,294	6,294
Property held for sale	-	-	2,046	2,046	-	-	25,541	25,541
Investment property	-	-	248,810	248,810	-	-	232,659	232,659
Derivative financial instruments	-	7	-	7	-	205	-	205
Total financial assets at fair value	**-**	**7**	**264,265**	**264,272**	**50,642**	**205**	**264,494**	**315,341**
Financial liabilities at fair value								
Provision for future sales contract	-	-	-	-	-	-	260	260
Derivative financial instruments	-	1,239	-	1,239	-	817	-	817
Total financial liabilities fair value	**-**	**1,239**	**-**	**1,239**	**-**	**817**	**260**	**1,077**

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(e) Fair value measurements recognised in the Statement of Comprehensive Income (continued)

Financial instruments at fair value	Parent Company 2015				Parent Company 2014			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value								
Shares in listed companies	-	-	-	-	50,642	-	-	50,642
Derivative financial instruments	-	71	-	71	-	-	-	-
Total financial assets at fair value	**-**	**71**	**-**	**71**	**50,642**	**-**	**-**	**50,642**
Financial liabilities at fair value								
Derivative financial instruments	**-**	**352**	**-**	**352**	**-**	**693**	**-**	**693**
Total financial liabilities at fair value	-	**352**	**-**	**352**	**-**	**693**	**-**	**693**

Level 3 fair value measurements	Group 2015 $000	Group 2014 $000
Balance at beginning of year	264,234	226,350
Unrealised net change in the value of investment property		
Investment property	9,601	13,366
Investment property inventories	1,077	(597)
Property held for sale	-	2,208
Purchases		
Investment property	15,475	29,234
Investment property inventories	6,038	2,930
Property held for sale	1,291	4
Sales		
Investment property	(8,926)	(5,300)
Investment property inventories	-	(1,734)
Property held for sale	(24,785)	(1,967)
Provision for future sales		
Property held for sale	260	(260)
Balance at the end of the year	**264,265**	**264,234**

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1 - the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. Financial assets in this category include shares in listed companies.

- Level 2 - the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- Level 3 - the fair value of investment property is determined by registered independent valuers who conform with the New Zealand Property Institute Practice Standards.

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(e) Fair value measurements recognised in the Statement of Comprehensive Income (continued)

The Group carried its investment in a listed entity at its quoted price on the NZX. The investment in Lyttelton Port Company Limited was included in Level 1 of the fair value measurement hierarchy. This investment was sold during the year.

The Group carries interest rate derivatives (derivative financial instruments) at fair value. 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 2015.

The Group's total property portfolio was valued by external valuation on the basis of fair value, in accordance with international and Property Institute of New Zealand (PINZ) Valuation Standards. The fair values presented are based on market values. In determining the value for an investment property and property held for sale where income is receivable for a reasonable term from secure tenants, the direct capitalisation of passing income method is used. For other investment property, property held for sale and the provision for future sales contract, the contract income approach, market income approach and discounted cash flow ("DCF") methods are used. Investment property in development uses the DCF method.

Property valuation is inherently subjective as they are made on the basis of assumptions made by the valuers which may not prove to be accurate. For these reasons, we have classified the valuations of our property portfolio as Level 3. There is a policy of rotation of independent investment property valuers. The terms of rotation are investment properties, every three years and ground leases, every four years. Valuations are reviewed by senior management at the Group level and only finalised when senior management have given approval.

The key inputs used to measure fair values of property portfolio are as follows:

		Fair value measurement sensitivity to significant		
Significant input	Description	Increase in input	Decrease in input	Valuation method
Discount rate	The rate applied to future cash flows ,it reflects transactional evidence from similar types of property, comparable sales and consideration of the long term bond rate.	Decrease	Increase	Capitalisation, Market income & DCF approach
Rental growth rate	The rate applied to the market rental over the 10 year cash flow projection.	Increase	Decrease	Capitalisation, Market income & DCF approach
Terminal capitalisation rate	The rate used to determine the terminal value of the property.	Decrease	Increase	Capitalisation, Market income & DCF approach
Cash flow term	The term of Project Cash Flows measure in years (10 years).	Increase	Decrease	Capitalisation, Market income & DCF approach
Profit & risk profile	Risk assessment rate for investment property in development.	Decrease	Increase	Capitalisation approach
Market capitalisation rate	The capitalisation rate applied to the market rental to assess a property's fair value. Derived from similar transaction evidence taking into account location, weighted average lease term, customer covenant, size and quality of property.	Decrease	Increase	Capitalisation approach
Undiscounted sales rate	The hypothetical sales rate per m^2.	Increase	Decrease	Capitalisation, Market income & DCF approach
Development deferment years	Years assumed in which development will occur.	Decrease	Increase	Capitalisation, Market income & DCF approach

NOTES TO THE FINANCIAL STATEMENTS continued

21. Financial instruments and fair value measurements (continued)

(e) Fair value measurements recognised in the Statement of Comprehensive Income (continued)

The following table discloses the quantitative information by asset class of the key significant inputs disclosed on the previous page:

Asset class	Fair value $000	Significant inputs	
Investment property inventories			
Hamilton	$13,409	15.0%	Discount rate
		20.0%	Profit and risk profile
		$220/m^2 - $225/m^2	Undiscounted sales rate/m^2
Property held for sale			
Hamilton	$2,046	$65/m^2 - $235/m^2	Undiscounted sales rate/m^2
		7.5 years	Development deferment years
Investment property			
Dunedin ground leases	$132,750	5.5% - 6.5%	Market capitalisation rate
Dunedin investment property	$7,085	1.0% - 3.3%	Rental growth rate
		8.0% - 9.3%	Terminal capitalisation rate
		10 years	Cash flow term
Auckland investment property	$90,066	8.0% - 9.8%	Discount rate
		2.5% - 2.8%	Rental growth rate
		7.0% - 9.3%	Terminal capitalisation rate
		10 years	Cash flow term
Hamilton investment property	$18,909	15.0%	Discount rate
		$235/m^2	Undiscounted sales rate/m^2
		7.5 years	Development deferment years

NOTES TO THE FINANCIAL STATEMENTS continued

22. Reconciliation of consolidated operating cash flows

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
The reconciliation between profit and the cash flow from operations is:				
Profit for the year	52,435	31,824	38,639	12,370
Plus/(less) non cash items:				
Unrealised net change in the value of investment property	(10,678)	(14,977)	-	-
Depreciation and amortisation	8,739	7,655	8,296	7,540
Movement in the fair value of interest rate swaps and forward exchange contracts	653	(1,665)	758	(1,176)
Movement in non-current employee entitlements	187	(400)	67	(59)
Movement in deferred tax	(158)	(442)	(343)	(239)
Plus/(less) items classified as investing activities:				
Gain on sale of available-for-sale investments	(24,713)	-	(24,713)	-
(Gain) / loss on sale of property, plant and equipment	(504)	42	(501)	37
Gain on disposal of investment property	(1,074)	(628)	-	-
Share of surpluses retained by joint ventures	(324)	(120)	-	-
Movement in working capital items:				
Trade and other receivables	1,260	(94)	1,832	(730)
Trade and other payables	1,371	189	1,773	(694)
Current employee entitlements	348	(154)	334	(162)
Income tax	47	(796)	39	(679)
Inventories	(353)	(65)	(353)	(65)
Movement in working capital items classified as investing activities	1,514	270	112	35
Net cash flows from operating activities	**28,750**	**20,639**	**25,940**	**16,178**

23. Investment in subsidiaries, joint ventures and joint operations

Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities at Dunedin. The following tables detail the principal activities of the company's subsidiaries, joint ventures and joint operations.

(a) **Joint venture investments accounted for using the equity method**

Set out 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. During the period, South Freight Limited acquired the 50% interest in Icon Logistics Limited from Port Otago Limited. 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 the Parent. 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.

NOTES TO THE FINANCIAL STATEMENTS continued

23. Investment in subsidiaries, joint ventures and joint operations (continued)

(a) Joint venture investments accounted for using the equity method (continued)

The information below reflects the amounts presented in the financial statements of Icon Logistics Limited, and not the Group's share of those amounts which is disclosed in note 17.

Summarised Balance Sheet

	Icon Logistics Limited	
	100% 2015 $000	100% 2014 $000
Cash and cash equivalents	703	605
Other current assets	1,170	926
Total current assets	1,873	1,531
Non-current assets	1,826	1,586
Total assets	3,699	3,117
Current liabilities	(972)	(799)
Non current liabilities	(12)	-
Net assets	**2,715**	**2,318**

Summarised Statement of Comprehensive Income

	Icon Logistics Limited	
	100% 2015 $000	100% 2014 $000
Operating revenue	7,532	6,556
Interest revenue	8	8
Interest expense	(2)	(2)
Profit before tax from continuing activities	882	700
Income tax expense	(234)	(200)
Total comprehensive income	**648**	**500**

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

	Icon Logistics Limited	
	100% 2015 $000	100% 2014 $000
Opening net assets	2,318	2,078
Total comprehensive income for the period	648	500
Less shareholder distributions	(250)	(260)
Closing net assets	2,716	2,318
Interest in joint venture (50%)	**1,358**	**1,159**

NOTES TO THE FINANCIAL STATEMENTS continued

23. Investment in subsidiaries, joint ventures and joint operations (continued)

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

Set out below are the joint operations of the Group as at 30 June 2015, 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. Guarantees provided to the joint operations are disclosed in note 16(a) and 16(b).

Nature of investment in joint operation

Name	% of Ownership interest	Principal activity	Principal place of business
Harbourcold Dunedin	50%	Cold store operation	Dunedin
The Hamilton Joint Venture	50%*	Property investment	Hamilton
Hamilton JV (N3)	50%*	Property investment	Hamilton
Hamilton Porter Joint Venture	66.7%*	Property investment	Hamilton

* A partition agreement was negotiated and settled during the year with one of our joint venture partners which resulted in the Group purchasing their 50% share of the industrial zoned land in the Hamilton Joint Venture and their 33.3% share of the net assets of the Hamilton Porter Joint Venture, increasing the Group's interest to 66.7%. The industrial zoned land previously held in the Hamilton Joint Venture is now held in the Group's 100% subsidiary, Te Rapa Gateway Limited. As part of the partition agreement the Group disposed of its 50% interest in the employment and commercially zoned land in the Hamilton JV (N3) and the Hamilton Joint Venture.

Details of the assets and liabilities acquired and goodwill arising from the acquisition of 50% of the industrial zoned land in the Hamilton Joint Venture and 33.3% of the industrial zoned land in the Hamilton Porter Joint Venture are as follows:

Asset acquitions

Current Period to 30 June 2015

	Notes	The Hamilton Joint Venture $000	The Hamilton Porter Joint Venture $000	Total $000
Investment property	10,11,12	11,546	6,245	17,791
Borrowings	16	(9,000)	(2,500)	(11,500)
Trade and other payables		(308)	(175)	(483)
Goodwill on consolidation	13	-	1,219	1,219
Total purchase consideration, settled in cash		**2,238**	**4,789**	**7,027**

The valuation of investment property at the acquisition date was the 30 June 2014 carrying value plus additional development costs expended to acqusition date. The valuation of investment property at 30 June 2014 was performed by an independent professional appraiser with experience of the relevant market. At the date of acquistion the Group was actively engaged in the development process and marketing of the project.

NOTES TO THE FINANCIAL STATEMENTS continued

23. Investment in subsidiaries, joint ventures and joint operations (continued)

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

Details of the assets and liabilities settled on disposing the employment and commercially zoned land in the Hamilton JV (N3) and the Hamilton Joint Venture are as follows:

Asset disposals

Current Period to 30 June 2015

	Notes	The Hamilton Joint Venture	The Hamilton Joint Venture (N3)	Total
	$000	$000	$000	
Investment property	10,11,12	(4,686)	(4,068)	(8,754)
Gain on disposal		(28)	(825)	(853)
Total sales consideration, settled in cash		**(4,714)**	**(4,893)**	**(9,607)**

The investment in Harbourcold Dunedin is strategic to the port operating activities. The property investments detailed below 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 24 and 25 respectively.

The following summarised financial information reflects the amounts presented in the financial statements of the individual joint operations, and not the Group's share of those amounts:

Current period to 30 June 2015

	100% The Hamilton Joint Venture	100% The Hamilton Porter Joint Venture	100% The Hamilton Joint Venture (N3)	100% Harbourcold Dunedin	Total
	$000	$000	$000	$000	$000
Cash and cash equivalents	-	8	-	89	97
Other current assets	-	10,070	-	275	10,345
Total current assets	-	10,078	-	364	10,442
Non-current assets	-	10,505	-	55	10,560
Total assets	**-**	**20,583**	**-**	**419**	**21,002**
Current debt	-	-	-	-	-
Other current liabilities	-	(2,628)	-	(141)	(2,769)
Non-current debt	-	-	-	-	-
Non-current liabilities	-	-	-	-	-
Total liabilities	-	(2,628)	-	(141)	(2,769)
Net assets	**-**	**17,955**	**-**	**278**	**18,233**
Operating revenue	12	-	2	2,423	2,437
Interest revenue	434	-	5	-	439
Interest expense	(489)	-	(188)	-	(677)
Profit before tax from continuing activities	(2,059)	879	1,535	398	4,871
Income tax expense	-	-	-	-	-
Total comprehensive income	**2,059**	**879**	**1,535**	**398**	**4,871**

NOTES TO THE FINANCIAL STATEMENTS continued

23. Investment in subsidiaries, joint ventures and joint operations (continued)

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

Comparative period to 30 June 2014

	100% The Hamilton Joint Venture	100% The Hamilton Porter Joint Venture	100% The Hamilton Joint Venture (N3)	100% Harbourcold Dunedin	Total
	$000	$000	$000	$000	$000
Cash and cash equivalents	112	80	547	83	822
Other current assets	16,807	10,213	4,168	203	31,391
Total current assets	16,919	10,293	4,715	286	32,213
Non-current assets	21,877	8,766	8,442	39	39,124
Total assets	**38,796**	**19,059**	**13,157**	**325**	**71,337**
Current debt	(18,000)	(8,557)	(7,033)	-	(33,590)
Other current liabilities	(837)	(1,610)	(1,350)	(65)	(3,862)
Non-current debt	-	-	-	-	-
Non-current liabilities	(476)	-	-	-	(476)
Total liabilities	(19,313)	(10,167)	(8,383)	(65)	(37,928)
Net assets	**19,483**	**8,892**	**4,774**	**260**	**33,409**
Operating revenue	26	-	8	1,765	1,799
Interest revenue	400	121	12	1	534
Interest expense	(1,256)	(630)	(390)	-	(2,276)
Profit before tax from continuing activities	(1,127)	(1,983)	75	266	(2,769)
Income tax expense	-	-	-	-	-
Total comprehensive income	**(1,127)**	**(1,983)**	**75**	**266**	**(2,769)**

The following summarised financial information reflects the amounts presented in the financial statements of the Group:

Current period to 30 June 2015

	50% The Hamilton Joint Venture	67% The Hamilton Porter Joint Venture	50% The Hamilton Joint Venture (N3)	50% Harbourcold Dunedin	Total
	$000	$000	$000	$000	$000
Cash and cash equivalents	-	5	-	45	50
Other current assets	-	6,747	-	138	6,885
Total current assets	-	6,752	-	183	6,935
Non-current assets	-	7,038	-	28	7,066
Total assets	**-**	**13,790**	**-**	**211**	**14,001**
Current debt	-	-	-	-	-
Other current liabilities	-	(1,761)	-	(71)	(1,832)
Non-current debt	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-
Total liabilities	-	(1,761)	-	(71)	(1,832)
Net assets	**-**	**12,029**	**-**	**140**	**12,169**
Operating revenue	6	-	1	1,212	1,219
Interest revenue	217	-	3	-	220
Interest expense	(245)	-	(94)	-	(339)
Profit before tax from continuing activities	1,030	595	768	199	2,592
Income tax expense	-	-	-	-	-
Total comprehensive income	**1,030**	**595**	**768**	**199**	**2,592**

NOTES TO THE FINANCIAL STATEMENTS continued

23. Investment in subsidiaries, joint ventures and joint operations (continued)

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

Comparative period to 30 June 2014

	50% The Hamilton Joint Venture $000	33.3% The Hamilton Porter Joint Venture $000	50% The Hamilton Joint Venture (N3) $000	50% Harbourcold Dunedin $000	Total $000
Cash and cash equivalents	56	27	274	42	399
Other current assets	8,404	3,401	2,084	101	13,990
Total current assets	8,460	3,428	2,358	143	14,389
Non-current assets	10,939	2,919	4,221	20	18,099
Total assets	**19,399**	**6,347**	**6,579**	**163**	**32,488**
Current debt	(9,000)	(2,849)	(3,517)	-	(15,366)
Other current liabilities	(419)	(537)	(675)	(33)	(1,664)
Non-current debt	-	-	-	-	-
Other non-current liabilities	(238)	-	-	-	(238)
Total liabilities	(9,657)	(3,386)	(4,192)	(33)	(17,268)
Net assets	**9,742**	**2,961**	**2,387**	**130**	**15,220**
Operating revenue	13	-	4	883	900
Interest revenue	200	40	6	1	247
Interest expense	(628)	(210)	(195)	-	(1,033)
Profit before tax from continuing activities	(564)	(660)	38	133	(1,053)
Income tax expense	-	-	-	-	-
Total comprehensive income	**(564)**	**(660)**	**38**	**133**	**(1,053)**

(c) Principal subsidiaries

The Group had the following subsidiaries at 30 June 2015. All subsidiaries have a 30 June balance date.

Name	% of Ownership interest	Principal activity
Chalmers Properties Limited	100%	Property investment
Te Rapa Gateway Limited (previously known as Perpetual Property Limited)	100%	Property investment
Fiordland Pilot Services Limited	100%	Shipping services
South Freight Limited	100%	Transport investment

During the year, Perpetual Property Limited changed name to Te Rapa Gateway Limited.

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 16. 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, Chalmers Properties Limited and Fiordland Pilot Services Limited have a $300,000 overdraft offset facility arrangement which is included in the Group debt facility detailed in note 16(a). The purpose of this arrangement is to minimise any interest costs to the three entities.

NOTES TO THE FINANCIAL STATEMENTS continued

23. Investment in subsidiaries, joint ventures and joint operations (continued)

(c) Principal subsidiaries (continued)

The following summarised financial information reflects the amounts presented in the financial statements of the Group. The amounts disclosed represent Port Otago's interest in the subsidiaries as there are no non-controlling interests which impact on the subsidiaries activities or cash flows.

Current period to 30 June 2015

	South Freight Limited $000	Chalmers Properties Limited $000	Te Rapa Gateway Limited $000	Fiordland Pilot Services Limited $000	Total $000
Cash and cash equivalents	107	999	93	334	1,533
Other current assets	-	8,447	16,475	-	24,922
Total current assets	107	9,446	16,568	334	26,455
Non-current assets	685	252,123	19,811	345	272,964
Total assets	**792**	**261,569**	**36,379**	**679**	**299,419**
Current liabilities	5	(2,900)	(7,391)	(53)	(10,339)
Non-current liabilities	-	(42,343)	(1,942)	(73)	(44,358)
Total liabilities	5	(45,243)	(9,333)	(126)	(54,697)
Net assets	**797**	**216,326**	**27,046**	**553**	**244,722**
Operating revenue	125	15,073	7	890	16,095
Interest revenue	-	1,017	111	5	1,133
Interest expense	(18)	(2,578)	(1,225)	-	(3,821)
Profit before tax from continuing activities	107	20,533	168	325	21,133
Income tax expense	5	(4,066)	760	(91)	(3,392)
Total comprehensive income	**112**	**16,467**	**928**	**234**	**17,741**

Comparative period to 30 June 2014

	South Freight Limited $000	Chalmers Properties Limited $000	Te Rapa Gateway Limited $000	Fiordland Pilot Services Limited $000	Total $000
Cash and cash equivalents	-	(94)	9	280	195
Other current assets	-	24,850	-	6	24,856
Total current assets	-	24,756	9	286	25,051
Non-current assets	-	222,189	8,325	93	230,607
Total assets	**-**	**246,945**	**8,334**	**379**	**255,658**
Current liabilities	-	(2,128)	(8,206)	(59)	(10,393)
Non-current liabilities	-	(40,046)	(2,778)	-	(42,824)
Total liabilities	-	(42,174)	(10,984)	(59)	(53,217)
Net assets	**-**	**204,771**	**(2,650)**	**320**	**202,441**
Operating revenue	-	14,018	806	733	15,557
Interest revenue	-	610	-	6	616
Interest expense	-	(1,723)	(441)	-	(2,164)
Profit before tax from continuing activities	-	27,245	346	354	27,945
Income tax expense	-	(2,754)	343	(99)	(2,510)
Total comprehensive income	**-**	**24,491**	**689**	**255**	**25,435**

NOTES TO THE FINANCIAL STATEMENTS continued

24. Capital expenditure commitments

At 30 June 2015 the Group had commitments/approvals for capital expenditure of $13.55 million (last year: $4.42 million) which relates to purchases and refurbishments of port assets.

Operating lease commitments as lessor

The Company has entered into commercial property leases. These non-cancellable leases have remaining non-cancellable lease terms of up to 21 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Rentals receivable				
Within one year	17,195	14,662	4,131	1,406
After one year but not more than five years	55,517	45,275	12,995	4,361
More than five years	74,301	77,410	5,024	5,585
Minimum future lease receivable	**147,013**	**137,347**	**22,150**	**11,352**

25. Contingent liabilities

Apart from the matters noted below, there are no contingent liabilities at 30 June 2015 (30 June 2014: nil) other than those arising in the normal course of business.

Dredging and reclamation works performance security bond

Port Otago has entered into a contract to provide dredging services to Lyttelton Port Company Limited for a five year period. A $300,000 performance bond has been provided by Port Otago Limited, the principal, to Lyttelton Port Company Limited, the beneficiary, for the due performance of all obligations and liabilities under the contract. The expiry date of the performance bond is 21 December 2017. As at 30 June 2015, no claim under this bond has been received by the Guarantor, ANZ Bank New Zealand Limited.

NOTES TO THE FINANCIAL STATEMENTS continued

26. Transactions with related parties

(a) Transactions within the Group and with Otago Regional Council

Related party revenue/(expenditure) transactions during the year:

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
• **Otago Regional Council**				
Contribution towards operation of Harbour Control Centre	92	60	92	60
Property rental	7	7	7	7
Rates expense	(24)	(36)	(24)	(36)
Supplier of goods and services	-	(2)	-	(2)
Capital expense	-	(18)	-	(18)
• **Chalmers Properties Limited Group**				
Administration services provided	-	-	285	275
Interest expense	-	-	443	2
Interest revenue	-	-	(9)	(16)
Rental costs	-	-	(94)	(110)
• **Harbourcold Dunedin**				
Property rental	-	-	551	551
Sales of goods and services	-	-	363	-
Supplier of goods and services	-	-	(1)	(2)
• **Fiordland Pilot Services Limited**				
Administration fee	-	-	38	35
Pilot fee	-	-	112	97
Sales of goods and services	-	-	33	-
Interest expense	-	-	(5)	(6)
• **Icon Logistics Limited**				
Property rental	102	186	102	186
Sales of goods and services	23	100	23	100
Supplier of goods and services	(40)	(53)	(40)	(53)
• **South Freight Limited**				
Interest revenue	-	-	18	-

Amounts receivable from related parties are included in note 6.

During the year the Group and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer 2014 tax year losses to the Group. In conjunction with the tax loss transfer of $244,023 (2014 tax year: $265,307), by way of a tax loss offset, the Group made a subvention payment of $94,898 (2014 tax year: $103,175) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $94,898 reduction in income tax payments in the current year (2014: $103,175).

Tax losses from Te Rapa Gateway Limited are offset against the taxable income of Chalmers Properties Limited, both subsidiaries of the Company. No loss is to be offset for the 2015 year (2014: $332,000).

(b) Financial arrangement – The Hamilton Joint Venture

During the year ended 30 June 2008 The Hamilton Joint Venture agreed to sell 10% (of which the Group's half share amounted to 5%) of a 43.7 hectare gross block of joint operation land to Mr Andrew Duncan, who ceased employment with the Group during 2012.

NOTES TO THE FINANCIAL STATEMENTS continued

26. Transactions with related parties (continued)

(b) Financial arrangement – The Hamilton Joint Venture (continued)

During the year ended 30 June 2015, the Group negotiated and settled a partition agreement to purchase the 50% interest in the Hamilton Joint Venture industrial zoned land held by our joint venture partner.

At 30 June 2015 a balance sheet provision (refer Note 15) reflects the Group's 100% share of:

- The difference between the $2.84 million nominal sale proceeds and the net present value of the sales proceeds, and,
- The earned portion of the net present value of incentives to be reimbursed by the Group. The discounted incentives are recognised as earned on a straight-line basis over the period from February 2008 to March 2016 (last year: February 2008 to March 2016).

The terms of the transaction with Mr Duncan are as follows:

- Sale price of $2.84 million (plus GST if any) with deposits totalling $0.28 million payable when certain conditions are met and the balance payable on the vendor providing title
- The Group will pay land development costs of $0.29 million including payroll taxes
- At 30 June 2015, 2.52 hectares remain to be settled.

(c) Other related party transactions

Director(s)	Related party	Nature of relationship
D J Faulkner	Director of Gough Holdings Limited	Supplier to the Group
D R Black	Director of Farra Engineering Limited	Supplier to the Group Lease of property from Group
E J Harvey	Director of Kathmandu Holdings Limited	Lease of property from Group
V H Pooch	Director of Dynes Transport Tapanui Limited	Supplier to the Group

Mr Pooch resigned as a Director of Port Otago Limited and Group companies during the year.

Related party revenue/(expenditure) transactions during the year:

	Group		Parent Company	
	2015	2014	2015	2014
	$000	$000	$000	$000
• **Farra Engineering Limited**				
Property rental	50	44	-	-
Capital expenditure	-	(18)	-	(18)
Maintenance expense	(7)	(20)	(7)	(20)
• **Gough Holdings Limited (and it's wholly owned subsidiaries)**				
Maintenance expense	(249)	(381)	(249)	(381)
Capital expenditure	(256)	(479)	(256)	(479)
• **Kathmandu Holdings Limited**				
Property rental	281	238	-	-
• **Dynes Transport Tapanui Limited**				
Supplier of goods and services	(203)	(126)	(203)	(126)

NOTES TO THE FINANCIAL STATEMENTS continued

26. Transactions with related parties (continued)

(c) Other related party transactions (continued)

Related party receivable/(payable) at year end:

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
• **Otago Regional Council**				
Accounts payable	-	-	-	-
Trade receivable	54	17	54	17
• **Harbourcold Dunedin**				
Accounts payable	-	-	-	-
Trade receivable	41	3	41	3
• **Icon Logistics Limited**				
Accounts payable	(5)	(3)	(5)	(3)
Trade receivable	1	28	1	28
• **Farra Engineering Limited**				
Accounts payable	(1)	-	(1)	-
Trade receivable	-	-	-	-
• **Gough Holdings Limited** (and it's wholly owned subsidiaries)				
Accounts payable	(11)	(45)	(11)	(45)
Trade receivable	-	2	-	2
• **Dynes Transport Tapanui Limited**				
Accounts payable	(10)	(46)	(10)	(46)
Trade receivable	-	-	-	-

All related party transactions are conducted by the management of the respective companies on a commercial and arms length basis.

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

27. Provisions

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Balance at beginning of the year	260	-	-	-
Provision for future sales contract	(260)	260	-	-
Balance at end of year	**-**	**260**	**-**	**-**

The provision for future sales contract resulted from the difference between the present value of the sales price and fair value of an unconditional contract for the sale of 9.2 hectares of bare land which settled during the year.

28. Key management personnel compensation

The gross remuneration of Directors and key management personnel during the year was as follows:

	Group		Parent Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Directors' fees	312	343	233	247
Salaries and other short-term employee benefits	1,957	1,766	1,633	1,496
	2,269	**2,109**	**1,866**	**1,743**

NOTES TO THE FINANCIAL STATEMENTS continued

29. Dividends – Group and Parent Company

	Notes	2015 $000	2014 $000
Declared and proposed in respect of the current financial year:			
Interim dividend		3,250	2,500
Second interim dividend		3,250	2,700
Final dividend		750	1,900
Dividends for the financial year		**7,250**	**7,100**
Adjust for dividends declared after year end:			
2015 Final dividend declared September 2015		(750)	-
2014 Final dividend declared September 2014	31	1,900	(1,900)
2013 Final dividend declared September 2013		-	1,900
Dividend distributed to owners as disclosed in the Consolidated Statement of Changes in Equity		**8,400**	**7,100**
Dividends per share (cents)		36.25	35.5

30. Operating leases - Group and Parent Company

The future minimum lease payments to be paid under non-cancellable operating leases are as follows:

	2015 $000	2014 $000
Minimum rental commitments for all non-cancellable operating leases are:		
Payable within one year	250	127
Payable within one to two years	159	27
Payable within two to five years	145	38
	554	**192**

31. Significant events after balance date

Dividends

On 8 September 2015 the Directors declared a final dividend of $0.75 million for the year ended 30 June 2015. As the final dividend was approved after balance date, the financial effect of the dividend payable of $0.75 million has not been recognised in the Balance Sheet.

AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of
Port Otago Limited group's financial statements
for the year ended 30 June 2015

The Auditor-General is the auditor of Port Otago Limited and its New Zealand domiciled subsidiaries and other controlled entities. 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 group, consisting of Port Otago Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

Opinion

We have audited the financial statements of the Group on pages 9 to 53, that comprise the consolidated balance sheet as at 30 June 2015, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2015; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 11 September 2015. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

AUDIT REPORT continued

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

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

Responsibilities of the Auditor

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

AUDIT REPORT continued

Independence

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

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

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

STATUTORY DISCLOSURE

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2015.

Group activities

Port Otago Limited provides a full range of port facilities, cargo handling and warehousing services at the Port of Otago.

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

Financial results

The Group recorded a profit for the year of $52.4 million, compared to $31.82 million last year.

Dividends

A final dividend of $0.75 million will be paid on 10 September 2015, which brings total dividends for the year to $7.25 million.

Changes in accounting policies

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

Directors

In accordance with the Company's constitution at least one third of the Directors retire by rotation at each Annual Meeting. The Directors who retire in each year are those who have been longest in office since their last election or appointment.

At the Company's last Annual Meeting, held on 10 December 2014, Mr E J Harvey and Mr P F Rea retired by rotation and were reappointed.

Mr V H Pooch resigned as a Director on 31 January 2015.

Directors' remuneration

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

	Port Otago Limited $000	Chalmers Properties Limited $000	Total Group $000
D J Faulkner (Chairman)	67	21	88
D R Black (Deputy Chairman)	38	12	50
E J Harvey	36	12	48
E G Johnson	34	15	49
P F Rea	39	12	51
V H Pooch [R]	19	7	26
	233	**79**	**312**

[R] Resigned during the year

STATUTORY DISCLOSURE continued

Directors' interests

The Directors have disclosed the following general interests for the year ended 30 June 2015 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
D J Faulkner	Cold Storage Nelson Limited	Director
	Gough Holdings Limited (and its wholly owned subsidiaries)	Director
	Hawkes Bay Regional Investment Company Limited	Director
	Solar City Limited	Chairman
D R Black	Farra Engineering Limited	Chairman
	Forests Otago Limited	Chairman
	Otago Rescue Helicopter Trust	Chairman
E J Harvey	Ballance Agri-Nutrients Limited	Director
	DNZ Property Fund Limited	Director
	Heartland Bank Limited	Director
	Kathmandu Holdings Limited	Director
	New Zealand Opera Limited	Chairman
	Pomare Investments Limited	Director
E G Johnson	ECL Group Limited (and its wholly owned subsidiaries)	Director
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	Indevin Group Limited (and its wholly owned subsidiaries)	Chairman
	Port Marlborough (New Zealand) Limited (and its wholly owned subsidiaries)	Chairman
	Stone Farm Holdings Limited	Director
V H Pooch	Dynes Transport Tapanui Limited (and its wholly owned subsidiaries)	Director
	IFS Forestry Limited	Chairman
	Key Business Partners Limited	Director
	Number Power Limited	Director
	TD Haulage Limited (and its wholly owned subsidiaries)	Chairman

STATUTORY DISCLOSURE continued

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
440,001 – 450,000	1
320,001 – 330,000	1
220,001 – 230,000	2
200,001 – 210,000	7
190,001 – 200,000	3
160,001 – 170,000	4
150,001 – 160,000	1
140,001 – 150,000	2
130,001 – 140,000	3
120,001 – 130,000	3
110,001 – 120,000	14
100,001 – 110,000	9

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

Directors of subsidiary companies

Directors' fees for Chalmers Properties Limited are shown under 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 2015 or retired during the year as indicated with an (R):

Company	Director
Chalmers Properties Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, P F Rea, V H Pooch (R)
Fiordland Pilot Services Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, P F Rea, V H Pooch (R)
Te Rapa Gateway Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, P F Rea, V H Pooch (R)
South Freight Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, P F Rea

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 2015 was $132,000 (last year: $124,000).

For and on behalf of the Board of Directors

D J Faulkner Chairman 11 September 2015	E J Harvey Director 11 September 2015

DIRECTORY

Directors

David Faulkner	Chairman
Ross Black	Deputy Chairman
John Harvey	Chairman Audit Committee
Ed Johnson	
Paul Rea	Chairman Health and Safety Governance Committee

Executive

Geoff Plunket	Chief Executive
Kevin Kearney	Container Terminal Manager
Craig Bramley	Marine Manager
Peter Brown	General Manager Commercial
Lincoln Coe	General Manager Infrastructure
David Chafer	General Manager Property
Lynn Smillie	General Manager Human Resources
Stephen Connolly	Chief Financial Officer

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

PORT OTAGO LIMITED

www.portotago.co.nz