2016

Port Marlborough

ANNUAL REPORT

PORT marlborough NEW ZEALAND LTD

We create value for customers and for Marlborough by delivering excellence in port and marina services and facilities

SAFETY

We prevent harm to people in our workplace

INTEGRITY

We take ownership of our actions and take responsibility for the results

RECOGNITION

We value and acknowledge our people and what they achieve

CONTENTS

ENVIRONMENT

We respect our environment and minimise our environmental footprint

ENGAGEMENT

We connect openly with our communities

THE 2016 YEAR IN SUMMARY

Results in Brief and Operational Summary

Group Results	2016	2015
Operating Surplus (Loss) before Non-Cash Revaluations, Tax and Subvention Payment	$6.889m	$7.246m
Valuation Adjustments Non-Cash		
- Property	($2.418m)	$0.730m
- Financial Derivatives	($1.512m)	($1.060m)
Operating Surplus (Loss) before Tax and Subvention Payment	$2.959m	$6.916m
Provision for Tax and Subvention Payment	($1.149m)	($1.731m)
Operating Surplus / (Loss) After Tax	$1.810m	$5.185m
After Tax Return on Average Shareholder's Funds (excludes non-cash revaluations)	5.35%	5.1%
Net Asset Backing per Share	$8.97	$7.47
Interim Dividends	7.0c	7.0c
Final Dividend – Recommended per Share	10.0c	8.4c
Dividend – Interim and Proposed Final	$2.310m	$2.093m

Contribution to Group Revenues	2016 ($000)	2015 ($000)
Port Installations and Services	15,972	15,097
Investment Property (includes Marinas)	9,015	8,618
Marine Farm Facilities	759	711
Miscellaneous	102	78
TOTAL GROUP REVENUE*	**25,848**	**24,504**

** Excludes non-cash revaluations*

KEY OPERATIONAL PERFORMANCE INDICATORS

Number of Ship Visits	2016	2015	2014
Ferries	3,534	3,573	3,328
Cruise Ships	35	36	19
Other over 500 GRT	151	123	91
Total Ship Visits	**3,720**	**3,732**	**3,438**

Non-Ferry Cargoes			
Logs (Export and Domestic, JAS '000s)	705,547	708,139	625,910
Salt (Tonnes)	27,106	-	-
Cement (Tonnes)	9,763	6,245	4,826
Fish (Tonnes)	10,357	13,303	10,030
Other (Tonnes)	34,141	32,638	25,059
Total Cargo (Tonnes)	**786,914**	**760,325**	**665,825**

Marina Facilities Berth Occupancy (average %)			
Havelock Marina (369 berths)	69%	69%	71%
Waikawa Marina (473 berths)	96%	92%	93%
Picton Marina (207 berths)	100%	98%	97%
Total Average Occupancy	**89%**	**85%**	**87%**

PORT PROFILE

Port Marlborough New Zealand operates port and marina facilities in the north east of the South Island. The Company plays a key role in Marlborough's regional economy, facilitating the growth of some of the region's most significant and emerging industries including tourism, forestry export and marine farming.

Port Marlborough has three primary spheres of operation. Strategically located at the junction of New Zealand's major North/South road and rail routes with the coast, the port provides the South Island terminal for inter-island passenger and freight ferries at Picton.

In Shakespeare Bay, adjacent to Picton Harbour, Waimahara Wharf provides New Zealand's deepest export berth. Port Marlborough is the second largest marina operator in New Zealand, with three marinas providing more than 1050 berths plus accommodation for a further 500 vessels in boat sheds and storage compounds.

Operations span several different geographic locations. In each, the Company has substantial property-holdings that offer development potential in support of both traditional port and marina activities, and new ventures.

SUBSIDIARIES

Port Marlborough has two wholly-owned subsidiaries: Waikawa Marina Trustee Limited and PMNZ Marina Holdings Limited, both of which were established to facilitate the sale of long-term berth entitlements in the Waikawa Marina extension.

OWNERSHIP

Port Marlborough's sole shareholder is MDC Holdings Limited, a wholly-owned subsidiary of the Marlborough District Council. The Council is the Harbour Authority for Marlborough and employs a Harbourmaster and support staff to exercise the duties and powers required under the Local Government and Maritime Transport Acts.

Note: Throughout this report Company and Parent refer to Port Marlborough New Zealand Limited. The Group comprises the Parent and subsidiaries (as above).

FACILITIES

PICTON

- Inter-island freight and passenger ferry berths and terminals
- Berths for cruise ships up to 320 metres LOA (from November 2016, up to 362 metres LOA)
- Wharf facilities servicing aquaculture, commercial fishing and tourism operators
- Export shipping berth (draft 15.3 metres) and adjacent quayside storage facility in Shakespeare Bay servicing log export, project cargos and general cargos
- Extensive land holdings supporting integrated port activities
- Picton Marina, including berths for super-yachts and other vessels to 35 metres plus

HAVELOCK

- Berth, wharf and land-side facilities to service marine farming, tourism, forestry and barging operators in Pelorus Sound
- Havelock Marina, providing berths for recreational vessels, land-side storage and boat launching facilities
- An eight hectare reclamation accommodating a range of maintenance, marine related and value-added industries, with capacity for expansion and growth

WAIKAWA

- Waikawa Marina, including land-based boat storage and launching facilities
- Waikawa Travelift haulout and hardstand facility (capacity >50 vessels)
- Waikawa Marine Centre, a cluster of marine service industry and hospitality businesses associated with the Marina

MARLBOROUGH SOUNDS

- Wharf and port landing facilities in Elaine Bay and Port Underwood to support marine farming operators

REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

Port Marlborough's commitment to creating value for customers and for Marlborough within a safe working environment has been rewarded with strong operational performance delivering record revenue figures across several business sectors, and a new total revenue milestone in excess of $25 million.

Ed Johnson *(Chairman)* Ian McNabb *(Chief Executive)*

Log and interisland freight metrics were within a percentage point of last year's record volumes, while ferry passenger numbers continued to rebound strongly. Cruise business delivered greater efficiencies with a higher proportion of larger ships delivering 40% more cruise ship visitors to Marlborough than ever before. In the recreational sector, the marinas portfolio experienced an overall lift on the back of an excellent summer season supporting services in our key communities of Havelock and Picton.

Cook Strait ferry operators are very significant customers of the Port. Both Interislander and Strait Shipping introduced larger vessels to service during the year, delivering additional capacity for growth in both passenger and freight volumes. Future fleet reconfigurations and changing logistics management practices are expected to drive extensive redevelopment of ferry and freight marshalling infrastructure in the short to medium term. This will require significant capital investment. Underpinning future ferry trade, a new ten-year commercial contract has been agreed with Strait Shipping and preliminary dialogue has begun with Interislander ahead of their anticipated 2017 contract renewal.

Port Marlborough's success in hosting the *Queen Victoria* and *Queen Mary 2* cruise ships at short notice during the previous year proved the Port's capability to deal with vessels of this size and paved the way for potential visits from the world's largest classes of cruise vessels. *Ovation of the Seas* (348 metres in length, 41.5 metres in beam, gross tonnage of 168,666 Tonnes and carrying up to 4,900 passengers) will be the first of these ships to visit New Zealand. The Port has secured three visits for each of the next two summer seasons, with future visits likely. Work is currently underway to expand Waimahara berth at Shakespeare Bay at a project cost of $1.6 million to safely accommodate this new dimension in cruise ships. This investment demonstrates the Company's commitment to presenting Marlborough as a credible primary port for top profile cruise vessels, underpinning a long-term sustainable economic opportunity for Marlborough. (Cruise New Zealand's economic analysis of the 2015-2016 season identified $11 million of value added to the Marlborough economy by cruise activity, up 33% on the previous year (2014-15: $8 million).)

Capital investment focus on the commercial Port precinct continued with extensive strengthening and refurbishment of Waitohi Wharf responding to requirements of Strait Shipping's new vessel *Strait Feronia*; and providing opportunities for improved berth versatility, utilisation and safety for other users of the wharf.

The year saw a number of changes in the Company's internal business structures and resourcing to better enable business delivery to customers, with additional staffing reflecting the human contribution to continued business growth.

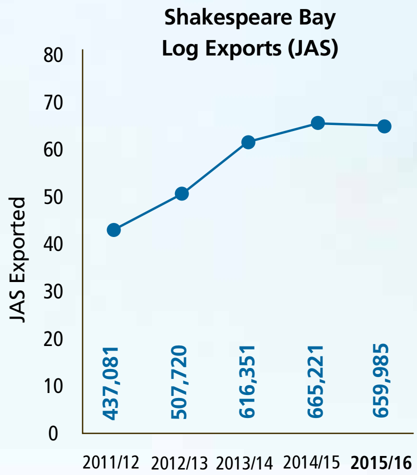
2015/16 STATEMENT OF CORPORATE INTENT PERFORMANCE TARGETS

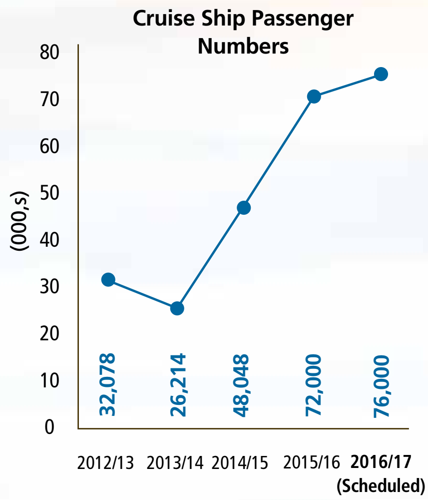
The targets for financial and operational performance, as detailed in the 2015/16 Statement of Corporate Intent, are compared below with actual results achieved for the period 1 July 2015 to 30 June 2016.

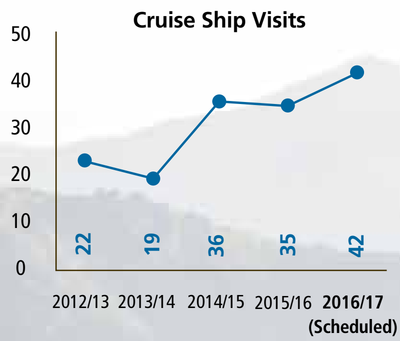
FINANCIAL PERFORMANCE	TARGET	RESULT
Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA) - excludes non cash revaluations	$10.25m	$12.10m
After Tax Return on Average Shareholder's Funds (excludes non-cash revaluations)	4.0%	5.35%
Equity Ratio	68.0%	70.8%

OPERATIONAL PERFORMANCE		
Ferry freight movement (% volume movement to prior year)	2.0%	-0.8%
Total log exports	670,000 JAS	659,985 JAS
Cruise ship visits	38	35
Marina berth occupancy	88.3%	86.9%
Marina boatshed occupancy	96.3%	97.2%

HEALTH AND SAFETY		
Lost time accidents frequency rate (per 100,000 work hours)	0	0.9
Number of injury accidents	<5	5







FINANCIAL PERFORMANCE

The Group's revenues lifted 5.5% to $25.85 million (2015: $24.50 million) on the back of continued strong log exports (659,985 JAS, just 0.8% below 2015's record volumes), and continuing strength in other core trades.

Total cargo through the Port was 7.7% ahead of budget, supported by an unbudgeted loadout of salt, consistent performance of inter-island ferry trade, and yields from prior years' capital investments delivering steady improvement.

Group pre-tax operating surplus at $6.89 million (adjusted for non-cash revaluations and subvention payment) for the year ended 30 June 2016 was impacted significantly by maintenance spend of close to $1 million on five-year survey of harbour tug *Maungatea*, masking strong revenue and operational results across the business.

Capital investment in core port infrastructure continued. Waitohi Wharf in Picton Harbour was fully refurbished at a cost of $3.8 million. Project planning and consenting activities were advanced for expansion of the Waimahara (Shakespeare Bay) berth to accommodate larger cruise vessels, with works underway at the beginning of the new financial year.

FINANCIAL POSITION AND DIVIDEND

Value of total Group assets increased 17.8% to $172.31 million following three-yearly revaluation of the company's operational assets. Increases related primarily to wharf infrastructure, reflecting refurbishment undertaken in some areas and the cost-effectiveness of initial construction of Waimahara Wharf. The Group's equity ratio of 70.8% is satisfactory and is considered appropriate for our diversified business portfolio.

Directors are proposing a final dividend of $1.36 million, bringing the total distribution for the year to $2.3 million. Port Marlborough has distributed a total of $29.2 million in dividends to our shareholder, a wholly owned subsidiary of Marlborough District Council, over the last ten years and nearly $64.0 million since the Company was established in 1988.

GOVERNANCE

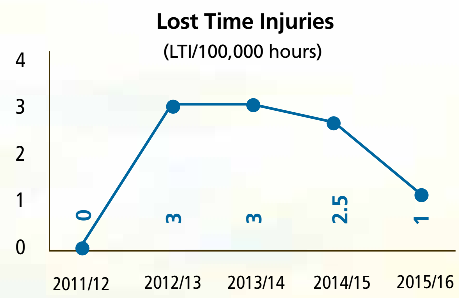
Director Kerry Hitchcock retired from the Board by rotation at the December 2015 AGM. Kerry's input to the Board regarding property matters has been of particular benefit to both the Board and to Management; the Board has respected his contribution and we thank him for it.

Director Keith Taylor was reappointed for a further three-year term.

New Director Ian Boyd has extensive experience in senior executive roles across the primary sector in New Zealand, with specific experience of the forestry and timber processing industries. Based in Auckland, Ian has a boat in Waikawa Marina.

The Board's constructive and open relationship with executive staff continues to provide the foundation for secure strategy and business implementation throughout the wider team.

HEALTH AND SAFETY



Health and safety is a primary value for us, and we work hard to prevent harm to people in our workplace. Strategic health and safety goals include fostering an authentic safety culture throughout the business and across all Port users. We have a strong internal focus on ensuring that all health and safety processes are fully understood by all staff and are easily accessible to them.

Significant prior work to prepare for the new legislative environment was tested by an external due diligence audit of the Company's health and safety environment towards the end of the year. A number of useful recommendations from the audit are now being implemented to further entrench health and safety excellence within the Company's activities and culture.

Continuing engagement with Port users has been formalised with instigation of Port User Forums. These focus on specific operational matters with safety issues as an embedded component of the conversation. Strengthened contractor management processes have increased control over contractor activities throughout operational areas and engineering projects, improving our ability to manage specific higher-risk activities.

OUR PEOPLE

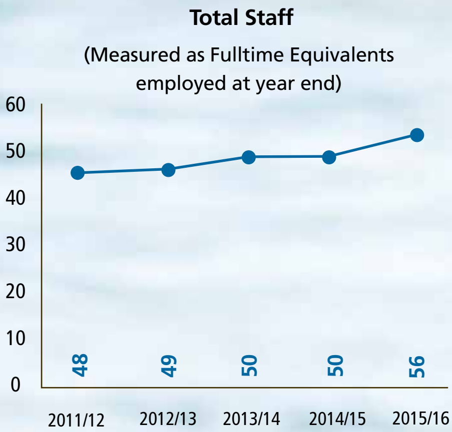
This is an exciting time for Port Marlborough with ongoing development and change occurring across many facets of the organisation. Our business continues to grow and evolve, providing both opportunities and challenges for our people.

The first half of the year saw implementation of significant changes in organisational structure to ensure that we are able to deliver business to our customers as effectively as possible, now and in the future.

A number of new team leader and management roles were established to devolve decision-making and responsibility, and some previously casual roles were established as permanent positions. The Port moved from using contract pilot services to directly employing our own Chief Pilot, consistent with the Company's increased emphasis on providing professional maritime services as an embedded component of our business offering.

New management information systems have required staff throughout the Company to adapt to significant changes in the way we do things. The resulting business benefits are testament to the adaptability of the team.

Many of Port Marlborough's staff are members of and are represented by the Rail and Maritime Transport Union. We take this opportunity to acknowledge and appreciate our relationship with the RMTU and its representatives, and their contribution to our workplace.



OUTLOOK

Strong trade through the port is forecast to continue through the 2017 year with log volumes of around 690,000 JAS expected through Shakespeare Bay. The coming summer will see at least seven more cruise ship visits than last year, with total passenger numbers around 75,000. Notably, the *Ovation of the Seas* will make her maiden voyage to Picton on Christmas Eve.

Cook Strait ferry operators are expected to further strengthen service delivery with the larger ship capacity now available. Recovery of passenger and private vehicle levels is forecast to continue. Negotiations for a new commercial contract with Interisland Line and consideration of long-term requirements for ferry infrastructure are currently receiving significant attention.

Strong performance of Marlborough Sounds Marinas over the last two years is set to flow through to the coming summer with enduring economic confidence in this customer sector. At Havelock, active demand for commercial sites will contribute to ongoing growth of the Havelock business unit as a whole. Design and resource consent preparation for new marina capacity at Waikawa will continue, with consent application lodgement possible before financial year end.

CONCLUSION

Infrastructure investment continues to be focused on incremental redevelopment or expansion of core Port infrastructure in response to clear customer needs. Expansion of the Waimahara berth will be completed prior to Christmas. Ongoing discussions around longer-term ferry facilities may result in firmer plans for specific redevelopment emerging prior to year-end.

The Port is staffed and resourced to deliver value to our customers in meeting their evolving needs.

E G (Ed) Johnson
Chairman

I M McNabb
Chief Executive

REVIEW OF OPERATIONS

Buoyancy in core trades underpinned further growth across all areas during the year, lifting total annual revenue by 5.5% and consolidating 31% revenue growth across the business in the five years from June 2011.

Continued improvements in internal systems, processes, resourcing and physical assets focussed on improving delivery of business to customers across the Company's spheres of activity.

PORT OPERATIONS

Cook Strait ferry operations consolidated with both operators bedding in new, larger capacity vessels. Strait Shipping's *Strait Feronia* came into service in June 2015, joining *Straitsman* to complete the Bluebridge RO-RO fleet.

Interislander introduced the re-branded, refitted RO-RO vessel *Kaiarahi* (previously *Stena Alegra*) to service on 12 October 2015 following retirement of Interislander veteran *Arahura* in July 2015. *Arahura's* service began in 1983 and was distinguished by more than 52,000 crossings of Cook Strait. *Kaiarahi* is joined by RO-RO vessel *Kaitaki* and rail-capable *Aratere* to complete the Interislander fleet.

Commercial ferry road and rail freight volumes stabilised at near-record levels on the back of growth across the three prior years. Following reduction of rail capacity due to Arahura's retirement, Interislander have introduced new logistics operations that transfer a proportion of rail freight from rail wagons to wheeled (vehicle) trailers for transit by ferry across Cook Strait. Freight is then loaded back to rail wagons for the onward journey. While this activity is undertaken by KiwiRail staff and the immediate impact on Port Marlborough's operations is negligible, the move to new logistics patterns will feed into future investment in infrastructure changes port-side.

Gradual reduction in ferry passenger and private vehicle volumes since 2008 has reversed with overall growth of 17% in passengers and 23% in private vehicle volumes across the last two years, returning the sector to near-2008 activity levels and supporting increased fleet capacity.

The Port hosted 35 cruise ship visits during the 2015-16 season, and provided pilotage services to several others cruising in the Marlborough Sounds. Although ship visit numbers were similar to last year, records were again broken with 73,000 cruise passengers visiting Picton, 40% ahead of the previous year which had in turn seen a doubling of passenger numbers compared to the preceding season. The need to provide a high-quality visitor experience to this volume of cruise passengers required a step-increase in logistics management both port-side and from tourism and retail operators. The net result (assisted by an extraordinary Marlborough summer) was a highly successful cruise season for the Port, Picton and the wider Marlborough province.

The coming season will see similar passenger numbers of around 76,000, across 42 ship visits. Notable in the coming year will be three visits of Royal Caribbean Line's *Ovation of the Seas*, one of the largest cruise ships in the world, launched in April this year. *Ovation* marks a new milestone in cruise vessel size and continues the overall trend to larger vessels.

In other trade through the Port, good production conditions at Dominion Salt's Grassmere plant led to shipment of 27 tonnes of salt across Waimahara Wharf. Activity in the Marine Farming and Fishing sectors was consistent with the prior two years, collectively generating $1.9 million revenue.

Port Marlborough's harbour tug *Maungatea* underwent significant refit during scheduled survey early in the year. Overall tug and Pilot movements were similar to the prior year.

MARLBOROUGH SOUNDS MARINAS

The brilliant 2015-16 Marlborough summer certainly delivered for users of marina facilities at Picton, Havelock and Waikawa. Fantastic weather and a stronger economy came together in a second consecutive bumper summer for Picton, Havelock and the Marlborough Sounds with customers and visitors making the most of excellent conditions and facilities.

Both Picton and Waikawa Marinas were full to capacity through the height of the season, with casual berth availability at a premium. Havelock had a strong summer albeit on lower base occupancy numbers.

Once again the trend towards larger trailer boats was evident with strong temporary demand for both smaller marina berths and trailer compound space over the main holiday season. All three marina launching ramps were busy throughout the season.

The strong summer lifted performance for the marinas business unit. Berth and boatshed facilities at Picton are full; and all facilities at Waikawa have occupancy above 95%. In Havelock, berth occupancy has gained ground in recent months while boatshed occupancy is near full capacity.

The Waikawa Hardstand and Travelift operation completed its third season of operation, with improving performance. Numbers of lifts for the year were above expected levels while hardstand occupancy significantly exceeded budget.

Waikawa Marina berth infrastructure is now thirty-plus years old. Programmed half-life berth maintenance saw the larger western berths refurbished during autumn. Many of the eastern berths will be refurbished in the coming spring.

Implementation of a new Customer and Marketing Services role within the marinas team has assisted in modernising communication and administrative services to customers, with a number of services now available on-line.

DEVELOPMENT AND PLANNING

Planning and capital investment continues to focus on progressive upgrade of the Port's commercial shipping precinct in response to specific commercial opportunities.

Introduction of Strait Shipping's new vessel *Strait Feronia* at 21,856 GT provided the catalyst for a major upgrade of Waitohi Wharf during the first half of the year.

Waitohi is a finger wharf 220m long, originally built over 100 years ago and extended in the 1960s. The Waitohi West berth provides the Port's primary general berth capacity supporting the fishing fleet, smaller cruise vessels, cement and other trades; while Waitohi East is dedicated to Strait Shipping's Cook Strait fleet.

Lateral strength of the wharf was enhanced by installation of raker piles driven beneath the wharf deck and new bollards were recessed into the deck. The multi-purpose western berth was fully re-fendered. Redundant structures were removed and the wharf deck was fully resurfaced with asphalt to deliver a cleaner, safer, more versatile work area.

Hosting of regular visits by larger ships (including the 168,666 GT *Ovation of the Seas*) requires an increase in length and width of the berth pocket alongside the wharf and installation of additional bollards to berth vessels securely. Planning and consenting for dredging of the berth pocket and construction of bollards has prepared the way for dredging works to commence in late winter, ready for the 2016-17 cruise season.

The certainty of Picton's role in the Cook Strait ferry trade and evolution of the Cook Strait fleet to larger vessels has enabled a strong focus on planning for future requirements of the fleet and associated marshalling and logistics operations. Port Marlborough and Interislander are working through a formal Working Group process to scope these requirements and establish what the future of ferry operations in Picton will look like. Outcomes of this process will inform planning for redevelopment of berth and landside infrastructure in coming years.

In the marinas, scale-model testing of the intended design for a future marina in the North West Marina Zone at Waikawa was initiated to inform design refinement prior to resource consent application during the next year. Investment in new marina capacity at Waikawa will be dependent upon demand, therefore timing for physical development is not yet defined.

COMMUNITY & ENVIRONMENT

Port Marlborough is an active contributor to our communities. We engage openly and with a strong sense of connection.

We respect the special environments in which we operate and work hard to minimise the environmental footprint of our operations and developments.

Our partnerships with groups focused on community and environmental initiatives are very important to the Company and to our people – and to the community.

The Company participates actively in key community groups and organisations including the Picton Forum, Pelorus Promotions, Picton Business Group and Smart and Connected groups in Picton and Havelock.

Our long-term relationship with the Port Marlborough Pavilion at Endeavour Park underpins our community sponsorship programme. The Pavilion is set to enter a further stage of development in the coming year with funding (including a capital grant from Port Marlborough) now secured for development of tennis and netball courts.

Port Marlborough is a long-time sponsor of significant community festivals and events including the Picton Maritime Festival, Picton Christmas Parade and the Picton New Year's Eve fireworks.

Marlborough Sounds Marinas is an established sponsor of the Havelock Mussel Festival, and more recently has been delighted to partner the Marina2Marina fun run event as Platinum Sponsor.

The Company also supports numerous schools, not-for-profit organisations and sporting organisations across the Marlborough region.

We continue to take a responsible, proactive approach to environmental management through our day to day operations, development planning, and wider community partnerships.

Increased environmental awareness and practical improvements continue across the wider port and marina areas, with a focus on third party operations. Collaboration continues across both the port and marinas sectors in development and awareness of best environmental practices.

We remain fully committed to our Foundation Partnership with Kaipupu Point Sounds Wildlife Sanctuary. The 2016 year witnessed enormous rewards when two iconic species were released to the pest-controlled habitat that so many volunteers have worked tirelessly to achieve. In March, 24 South Island Robins were re-homed from Long Island in the Marlborough Sounds to establish a new colony. Then, in the early winter, Kaipupu Point became a crèche for endangered adolescent Rowi Kiwi chicks. Nine chicks were released in the safe environment to mature sufficiently to enable them to fend for themselves when relocated to their native habitat of South Westland. Subsequently, further groups of chicks will cycle through the sanctuary on a regular basis as a part of DOC's 'Operation Nest Egg', working to return Rowi Kiwi to sustainable population levels.

THE BOARD OF DIRECTORS

Ed Johnson (Chairman)

BA (Hons) Finance and Accounting, MBA (Hons), CFInstD

Ed Johnson was appointed to the Board in December 2007 and has been Chairman since December 2008. He is also Chairman of Goldpine Industries Ltd, Indevin Ltd, and a director of Port Otago Ltd and ECL Group Ltd. He retired as Chairman and Chief Financial Officer of Shell New Zealand in 2002 after a number of senior management roles in New Zealand, Australia and the UK.

More recently in 2012 he retired as Chairman of Fulton Hogan Ltd after 17 years on that board. In 2001 Ed was appointed the inaugural Honorary Fellow of Massey University's Centre for Business and Sustainable Development. He is a Certified Fellow of the Institute of Directors in New Zealand. Ed resides in Marlborough dividing his time between the Wairau Valley and Pelorus Sound.

Keith Taylor *BSc, BCA, FIA, CFInstD*

Keith Taylor was appointed to the Board in December 2009. He is a professional director with extensive experience in senior management roles including Group Managing Director and Chief Executive of Tower Limited. He has property in the Marlborough Sounds. Keith's current directorships include: the Reserve Bank (Deputy Chair), Auckland Council Investments Limited (Chair), Gough Holdings Ltd (Chair), Government Superannuation Fund (Chair) and Southern Cross Healthcare.

Peter Drummond *MNZM, CFInstD*

Peter Drummond is an experienced director with extensive international business management and marketing expertise. He was made a Fellow of the Institute of Directors in 1999 and an Accredited/Chartered Fellow in 2005. He has served on a wide range of community organisations. Peter is currently Chairman of Appliance Connection Ltd, Watercare Harbour Clean-Up Trust, Variety Medical Missions South Pacific. He is a Director of NARTA New Zealand Ltd, NARTA International Pty Ltd, Watercare Services Limited and Ngati Awa Group Holdings Limited; and is a Board member of the New Zealand Fire Service.

Martin Fletcher *CA, MInstD*

Martin Fletcher was appointed to the Board in August 2008. A qualified accountant, he has had extensive experience at a senior level at the Office of the Controller and Auditor General, and Transit New Zealand (now part of the NZ Transport Agency). Martin is Chief Financial Officer with the Marlborough District Council and is Council's representative on the Board of Directors.

Mathew Kerr *B.B.S. MInstD, CA*

Mathew Kerr is a qualified Chartered Accountant and Senior Partner, WK Advisors and Accountants, Blenheim. He is a Trustee and the Treasurer of Marlborough Stadium Trust, Trustee of the Marlborough Hospice Foundation and Director of several private companies. Mathew is also a keen competitive sailor.

Ian Boyd *B.For.Sc., CMInstD, MNZIF*

Ian Boyd was appointed to the Board in December 2015. Ian is the CEO of Ontario Teachers Pension Plan NZ Forest Investments Limited (OTPP NZ) where he has responsibility for forestry and agricultural investments in New Zealand and Australia. He has held senior executive roles across the primary sector in New Zealand, including CEO of Te Arawa Group Holdings Ltd, Joint Chief Executive and Chief Operating Officer of Fletcher Challenge Forests, Managing Director of Wrightson Limited, and General Manager of Zespri Global Supply. Ian spent over four years living in Santiago, Chile as CEO managing the Fletcher Challenge forestry and pulp and paper investments in Chile and Brazil. He is a past Director of OTPP NZ, the Tertiary Education Commission, and is currently also a Director of Aroona Holdings Pty Limited and Rotorua Contracting, a Rotorua District Council CCO. Ian has a Bachelor of Forestry Science from Canterbury University, and has attended executive programs at Stanford and Wharton University. He resides in Auckland and has a boat in Waikawa Marina.

EXECUTIVE TEAM

Ian McNabb
Chief Executive
Dip VFM MinstD MPINZ

Ian was appointed Chief Executive in April 2008. His extensive property development and management experience spans roles with Landcorp Property, Van Diemen's Land Company and Manager of Services and Rivers for the Marlborough District Council. In 1997 he was appointed Project Manager with Ngai Tahu Property Limited and from 2004 was General Manager Property Development. Ian has a long history with the Company having been a member of the inaugural 1988 Board of Directors.

Dean Craighead
Chief Financial Officer
BCom CA

Dean returned to Port Marlborough in November 2005 after a three-year term in private practice. Prior to this he had headed Port Marlborough's accounting team since 1988. He is responsible for financial operations, financial and management reporting and information technology, and also heads the Company administration team.

Dean has served on various regional committees of the Institute of Chartered Accountants of New Zealand.

Rose Prendeville
Projects Manager
BTech (I.E.), Dip.PM

Rose has a comprehensive business background spanning production and process engineering, production management, marketing, administration and project management, and has had general management roles in the engineering and construction materials sectors. Having initially joined Port Marlborough in 2003 she was appointed to the role of Projects Manager in 2009. Rose is tasked with providing specialist project management leadership and experience, implementation of best practice project management across the business and leadership of key strategic projects.

Rhys Welbourn
Manager Business Delivery
MBA, BA (Hons), PG Dip. GIS, Dip Eng (Civil)

Rhys initially joined Port Marlborough as an engineer in 2006, leaving in 2010 after receiving a scholarship to read for an MBA at Cranfield University in the UK. On completion Rhys took the role of Infrastructure Manager at PrimePort Timaru eventually taking on the additional role of 2IC. Rhys re-joined Port Marlborough in 2015 and leads the marinas, port, marine and property teams.

Gavin Beattie
Manager Infrastructure
BE Mech (Hons) MIPENZ CPEng

Gavin joined Port Marlborough as the Infrastructure Manager in 2012. He previously worked as a consultant engineer on hydropower and industrial projects in New Zealand and Overseas. He has experience in project and contract management as well as technical leadership for a diverse range of engineering projects. Gavin is responsible for management of existing port infrastructure and development of new assets and he leads the engineering and workshop team.

Statutory Information

Directors' Report

The Directors of Port Marlborough New Zealand Limited are pleased to present to the Shareholder their Annual Report and financial statements for the year ended 30 June 2016.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly in all material aspects the financial position of Port Marlborough New Zealand Limited and its subsidiaries as at 30 June 2016 and the results of the Group's operations and cash flows for the year ended on that date.

Auditors

Mike Hoshek of Deloitte, acting as agent for the Office of the Auditor General, is the auditor of Port Marlborough New Zealand Limited and its subsidiaries for the year ended 30 June 2016.

Employee Remuneration - Parent Company

The number of employees whose total remuneration received in their capacity as employees was within the specified bands is shown below.

Remuneration	Number of Employees 2016	2015
$100,000 – 110,000	3	2
$110,000 – 120,000	2	3
$120,000 – 130,000	1	-
$140,000 – 150,000	2	-
$150,000 – 160,000	1	2
$180,000 – 190,000	1	-
$190,000 – 200,000	-	1
$200,000 – 210,000	1	-
$240,000 – 250,000	-	1
$360,000 – 370,000	1	-
$380,000 – 390,000	-	1

The figures include all benefits, retiring allowances and Fringe Benefit Tax.

Interests Register

Directors' Remuneration and Benefits

The remuneration paid to non-executive Directors during the year ended 30 June 2016 was: E G Johnson $60,000. Messrs M F Fletcher, P S Drummond, M B J Kerr and K B Taylor $30,000 each. Messrs K D Hitchcock and I R Boyd $15,000 each.

The fees relating to M F Fletcher were paid to the Marlborough District Council.

Directors' and Officers' Liability Insurance

The Company has arranged Directors' and Officers' Liability Insurance with QBE Insurance International Limited. This cover insures Directors against liabilities to other parties that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

Directors' Interests in Contracts

The following Directors have declared interests in the identified entities. The declaration serves as notice that the Director may have a commercial interest in or benefit from any transaction between the holding company or Group and the identified entities.

Members Interests:

Ed Johnson

- Fulton Hogan Limited, Shareholder
- Goldpine Group Ltd, Chairman/Shareholder
- Indevin Limited, Chairman/Shareholder
- ECL Group Limited, Director
- Port Otago Limited, Director
- Stone Farm Holdings Limited, Director/Shareholder
- E G and D M Johnson Family Trust, Trustee

Ian Boyd (Appointed 11 December 2015)

- OTPP NZ Forest Investments Limited, CEO
- Rotorua Contracting Limited, Director
- Aroona Holdings Limited, Director
- Aroona Farms SA Pty Limited, Director
- Aroona Farms Vic Pty Limited, Director
- Aroona Farms SA No2 Pty Limited, Director

Peter Drummond

- Appliance Connexion Ltd, Chairman
- Fish Pot New Zealand, Chairman
- NARTA Australia Pty Ltd, Director
- NARTA NZ Ltd, Director
- Watercare Services Ltd, Director
- Ngati Awa, Director

Martin Fletcher

- Marlborough District Council, Manager Corporate Finance CFO
- Calmar Cherries Ltd, Director/Shareholder

Keith Taylor

- Auckland Council Investments Limited, Chairman
- Earthquake Commission, Deputy Chairman
- Butlands Management Services Limited, Director
- Southern Cross Medical Care Society, Healthcare Trust and Hospitals Limited, Director/Trustee
- Reserve Bank of New Zealand, Deputy Chairman
- Gough Holdings Limited/Chairman
- Government Superannuation Fund, Chairman
- Carey Baptist Theological College, Board Member

Kerry Hitchcock (Retired 11 December 2015)

- Charta Limited, Director
- Kerry D Hitchcock Limited, Director
- Crescent Management Limited, Director
- Unicentre Limited, Director
- Charta Real Estate Limited, Director
- Tamaki Station Limited, Director
- Forte Management Limited, Director
- Tamaki Investment Trust Company Limited, Director
- Charta Management Holdings Limited, Director
- Charta Funds Management Limited, Director
- K D Investment Trust Company Limited, Director
- Bay Investments Trust Company Limited, Director
- Charta Management Limited, Director
- Kauri Tamaki Limited, Director
- Kauri Property Fund Limited, Director
- NPT Capital Limited, Director
- Ocean Boulevard Shopping Centre Limited, Director
- The National Property Trust No 2 Limited, Director
- 342 Lambton Quay Limited, Director
- Eastgate Shopping Centre Limited, Director
- The National Property Trust Investments Limited, Director
- 99 Albert Street Limited, Director
- Hornby Mall Limited, Director
- The National Property Trust No 1 Limited, Director
- 36 Sel Peacock Drive Limited, Director
- NPT Management Team Limited, Director
- NPT Limited, Director
- 22 Stoddards Road Limited, Director

Matt Kerr

- Kakapo Bay Forests (2004) Ltd, Director
- Saints Investments Limited, Director
- Winstanley Kerridge Chartered Accountants Limited, Director

Directors' Loans

There were no loans by the Company to Directors.

Use of Company Information

During the year, the Board did not receive any notices from Directors of the Company requesting the use of Company information, received in their capacity as Directors, which would not otherwise have been available to them.

Statement of Responsibility

The Directors are responsible for ensuring that the financial statements present fairly in all material aspects the financial position of the Company and the Group as at 30 June 2016, and their financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the statements with the Financial Reporting Act 2013.

The Directors consider they have taken adequate steps to safeguard the assets of the Company and the Group to prevent and detect fraud and other irregularities.

Corporate Governance Statement

Corporate Governance Statement

The Board of Directors is responsible for the corporate governance of the Company. Corporate governance encompasses the direction and control of the business by the Directors and the accountability of the Directors to the Shareholder, MDC Holdings Limited, for the performance of the Company, and compliance by the Company with laws and standards. This summary provides an overview of the Company's main corporate governance policies, practices and processes adopted or followed by the Board.

Role of the Board of Directors

The Board of Directors (the "Board") is appointed by the shareholders to supervise the management of the Company and its subsidiary companies (the "Group"). The Board establishes the Group's objectives, strategies for achieving objectives, and the overall policy framework within which the Group's business is conducted and monitors management's performance. The Board has delegated the day-to-day management of the Group to the Chief Executive.

The Board also ensures that appropriate procedures are in place to provide for effective internal control.

Board Operations and Membership

The Board comprises six non-executive Directors: a Chairman and five Directors. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are completed to ensure the best possible management of resources. Directors' qualifications and details are set out on page 22 of this report.

Port Marlborough's constitution sets out policies and procedures on the operation of the Board, including the appointment and removal of Directors.

Board Committees

The Board has an Audit Committee comprising the six non-executive Directors: a Chairman and five Directors. The Audit Committee is responsible for overseeing the financial, accounting and audit activities of the Group, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

Statement of Corporate Intent

In accordance with section 13 of the Port Companies Act 1988 the Board submits an annual Statement of Corporate Intent (SCI). The SCI sets out the Company's overall objectives, intentions, and financial and performance targets. The SCI is approved by the shareholder, MDC Holdings Limited which is wholly owned by the Marlborough District Council.

Risk Management

The Board has overall responsibility for the Group's internal control systems. The Board has established policies and procedures that are designed to provide effective internal control. Annual budgets and longer-term strategic plans are prepared, and agreed by the Board. Financial statements and operational reports are prepared on a monthly basis and reviewed by the Board throughout the year to monitor performance against budget targets and objectives.

In addition, the Board reviews risk management strategies, including the segregation of duties, the employment of suitably qualified and experienced staff, and recommendations made by the external auditors.

Directors' Approval of Financial Statements

For the Year Ended 30 June 2016.

Approval by Directors

The Directors are pleased to present the Financial Statements of Port Marlborough New Zealand Limited for the year ended 30 June 2016 on pages 29 to 49.

Authorisation for Issue

The Board of Directors authorised the issue of these Financial Statements on 16 September 2016.

EG Johnson Chairman **MF Fletcher** Director

For and on behalf of the Board of Directors.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF
PORT MARLBOROUGH NEW ZEALAND LIMITED GROUP'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Port Marlborough New Zealand Limited and its New Zealand domiciled subsidiaries and other controlled entities. The Auditor-General has appointed me, Mike Hoshek, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the group, consisting of Port Marlborough New Zealand 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 29 to 49, that comprise the consolidated statement of financial position as at 30 June 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 2016; 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, Reduced Disclosure Regime.

Our audit was completed on 16 September 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, Deloitte.

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.

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.

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.

Mike Hoshek
Deloitte
On behalf of the Auditor-General
Christchurch, New Zealand

Consolidated Income Statement

For the Financial Year Ended 30 June 2016

	Note	Group 2016 $'000	2015 $'000
Revenue	3.1	25,775	24,458
Other income		73	46
Investment property revaluation	9	(2,418)	730
Operations and maintenance		(7,626)	(7,505)
Employee benefits expense	22.6	(6,127)	(5,542)
Depreciation, impairment and amortisation expense	3.2	(3,399)	(2,326)
Finance costs	3.2	(3,319)	(2,945)
Subvention payments		(326)	(373)
Profit before income tax expense		**2,633**	**6,543**
Income tax expense	4.1	(823)	(1,358)
Profit for the year		**1,810**	**5,185**

Consolidated Statement of Comprehensive Income

For the Financial Year Ended 30 June 2016

	Note	Group 2016 $'000	2015 $'000
Profit for the year		**1,810**	**5,185**
Other Comprehensive Income, net of tax			
Items that will never be classified to profit or loss:			
Gain on revaluation of property, plant and equipment	8	26,406	-
Income tax relating to valuation of property, plant and equipment	4.3	(5,759)	-
Total Comprehensive Income for the Year, net of tax		**20,647**	**5,185**
Comprehensive Income attributable to Members of the parent entity		**22,457**	**5,185**

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2016

	Note	Group 2016 $'000	2015 $'000
Equity at beginning of the year		101,550	98,471
Total Comprehensive Income for the Year, net of tax		22,457	5,185
Dividends	17	(2,093)	(2,106)
Balance at end of the year		**121,914**	**101,550**

Notes to the financial statements are included on pages 32 to 49.

Consolidated Statement of Financial Position

As of 30 June 2016

	Notes	Group 2016 $'000	2015 $'000
CURRENT ASSETS			
Cash and cash equivalents	21.2	329	1,538
Trade and other receivables	5	2,671	2,533
Inventories	6	269	302
Current tax asset	4.2	429	-
Total current assets		**3,698**	**4,373**
NON-CURRENT ASSETS			
Property, plant and equipment	8	92,868	65,432
Investment property	9	75,017	75,756
Other intangible assets	10	725	829
Total non-current assets		**168,610**	**142,017**
Total assets		**172,308**	**146,390**
CURRENT LIABILITIES			
Trade and other payables	11	2,760	3,259
Current tax liabilities	4.2	-	364
Other financial liabilities - Derivatives	13	143	49
Total current liabilities		**2,903**	**3,672**
NON-CURRENT LIABILITIES			
Borrowings from MDC Holdings Limited	12	31,500	31,500
Deferred tax liabilities	4.3	13,290	8,385
Other financial liabilities - Derivatives	13	2,701	1,283
Total non-current liabilities		**47,491**	**41,168**
Total liabilities		**50,394**	**44,840**
Net assets		**121,914**	**101,550**
EQUITY			
Capital and other equity instruments	14	13,588	13,588
Capital reserve	15.1	2,693	2,693
Revaluation reserve	15.2	48,898	33,076
Retained earnings	16	56,735	52,193
Parent entity interest		121,914	101,550
Total equity		**121,914**	**101,550**

Notes to the financial statements are included on pages 32 to 49.

Consolidated Cash Flow Statement

For the Financial Year Ended 30 June 2016

	Notes	Group 2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		25,681	24,192
Interest received		29	32
Payments to suppliers and employees		(14,139)	(12,475)
Interest and other costs of finance paid		(1,834)	(1,886)
Subvention payments		(373)	(367)
Income tax paid (Net of refunds)		(2,470)	(1,454)
Net cash provided by operating activities	21.1	6,894	8,042
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		19	25
Payment for property, plant and equipment		(4,334)	(3,004)
Payment for investment property		(1,679)	(613)
Payment for intangible assets		(16)	(156)
Net cash used in investing activities		(6,010)	(3,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	(2,000)
Dividends paid		(2,093)	(2,106)
Net cash provided in financing activities		(2,093)	(4,106)
Net increase/(decrease) in cash and cash equivalents		**(1,209)**	**188**
Cash and cash equivalents at the beginning of the financial year		**1,538**	**1,350**
Cash and cash equivalents at the end of the financial year	21.2	**329**	**1,538**

Notes to the financial statements are included on pages 32 to 49.

Notes to the Financial Statements

For the Financial Year Ended 30 June, 2016

1. COMPANY INFORMATION

The Consolidated Financial Statements comprise the activities of Port Marlborough New Zealand Limited (PMNZL) and the other entities in which the Company has a controlling interest. The Consolidated Financial Statements presented are for the Group as at, and for the year ended 30 June 2016.

The Group consists of:

- Port Marlborough New Zealand Limited.
- Waikawa Marina Trustee Limited.
- PMNZ Marina Holdings Limited.

The Company and Group is a profit-oriented company incorporated in New Zealand. Its principal products and services are the provision of port and marina facilities at the northern tip of the South Island of New Zealand. The Company is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with that Act and the Companies Act 1993. The Company is a port company for the purposes of the Port Companies Act 1988 and its financial statements also comply with that Act.

The parent entity is MDC Holdings Limited, which is a 100% owned subsidiary company of Marlborough District Council.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Statement for the year ended 30 June 2016, and the comparative information presented in these Financial Statements for the year ended 30 June 2015:

2.1. Statement of compliance

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") - Tier 2, and other applicable financial reporting standards as appropriate for profit-oriented entities that apply the reduced disclosure regime (RDR). The Group qualifies for NZ IFRS (RDR) as it does not have public accountability and is not a large for profit public sector entity. The Group has elected to apply NZ IFRS (RDR) and has applied disclosure concessions with the exception of the cash flow reconciliation under FRS 44/NZ IAS 7, and the prior year asset reconciliations under NZ IAS 16.

2.2. Basis of preparation

The presentation currency is New Zealand Dollars ($). All financial information has been rounded to the nearest thousand, unless otherwise stated. The Income Statement, other comprehensive income, cash flows and changes in equity are stated exclusive of GST. All items in the balance sheet are stated exclusive of GST with the exception of trade receivables and trade payables, which include GST.

The Financial Statements have been prepared on the basis of historical cost, except for certain non-current assets and derivative financial instruments that are measured at revalued amounts or fair values at the end of each reporting period as disclosed in the notes to the Financial Statements. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

Fair Value Measure

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are categorised into a three level hierarchy that reflects the significance of the inputs used in marking the measurements.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

2.3. Accounting estimates and judgements

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant judgements, estimates and assumptions made by management in the preparation of these Financial Statements are outlined below:

- Asset revaluation (notes 8 and 9)
- Financial instruments (note 13)
- Contingent liabilities (note 20).

2.4. Impairment

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the greater of market value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

For non-revalued assets, impairment losses are recognised as an expense immediately. For revalued assets, other than investment property, the impairment loss is treated as a revaluation decrease to the extent it reverses previous accumulated revaluation increments for that asset class.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, subject to the restriction that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase to the extent that any impairment losses on the same asset had been previously charged to equity. An impairment of goodwill is not subsequently reversed.

2.5. New standards adopted

The Group has adopted all standards, interpretations and amendments which became effective in the current year with no material changes to the Group's accounting policies with regards to measurement and disclosure in the financial statements.

2.6. New standards and interpretations issued but not yet effective

The Group has not applied the following new and revised standards and amendments that have been issued but are not yet effective:

- NZ IFRS 9 Financial Instruments- Effective for reporting periods beginning on or after 1 January 2018
- NZ IFRS 15 Revenue from Contracts with Customers- Effective for reporting periods beginning on or after 1 January 2018
- NZ IFRS 16 Leases- Effective for reporting periods beginning on or after 1 January 2019
- Amendments to NZ IAS 16 and NZ IAS 38- Clarification of Acceptable Methods of Depreciation and Amortisation- Effective for reporting periods beginning on or after 1 January 2016

The directors of the Group anticipate that the application of the above standards and amendments in the future may have an impact on the amounts reported and the disclosures made in the financial statements. However it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

2.7. Accounting policies

Other

Other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Changes

External Reporting Board (XRB) – A1, sets out which suite of accounting standards entities must follow. The Company is eligible for and has elected to report in accordance with Tier 2 NZ IFRS (RDR). The Company has taken advantage of a number of disclosure concessions however there was no recognition or measurement impact on adoption of NZ IFRS (RDR). All accounting policies have been consistently applied throughout the period covered by these financial statements.

3. PROFIT FROM OPERATIONS

3.1. Revenue

Revenue from continuing operations consisted of the following items:

	Group	
	2016 $'000	**2015 $'000**
Revenue from the rendering of services	16,731	15,808
Operating lease rental revenue: Investment properties	9,015	8,618
Interest revenue: Bank deposits / IRD use of money	29	32
	25,775	24,458

Revenue recognition policies

Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services – Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at reporting date.

Rental income – The Group's policy for recognition of revenue from operating leases is described in note 19.2 below.

Interest revenue – Interest income is accrued on a time basis, by reference to the principal outstanding using the effective interest rate method, which applies the interest rate exactly discounts estimated future cash receipts over the expected life of the financial asset.

Sale of goods - Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the assets have been transferred to the buyer which is usually when the goods are delivered and title has passed.

3.2. Expenses

Profit before income tax has been arrived at after charging the following expenses to operations:	Notes	Group 2016 $'000	2015 $'000
Interest costs			
Interest on borrowings and swaps		1,807	1,885
Other finance costs			
Losses on derivative financial instruments		1,512	1,060
Total finance costs		**3,319**	**2,945**
Depreciation, impairment and amortisation			
Depreciation of non-current assets	8	2,317	2,200
Amortisation of non-current assets	10	120	126
Impairment of non-current assets	8	962	-
Total depreciation, impairment and amortisation		**3,399**	**2,326**
Other expenditure disclosures			
Auditor remuneration			
Audit fees		66	55
Donations and sponsorship		82	75
Employer contribution to superannuation		257	226
Operating lease rental properties		28	29
Expenses from investment properties generating income		3,519	3,414

Interest on borrowings and swaps policies

Interest expense is accrued on a time basis using the effective interest method.

Interest paid is classified as an expense consistently with the Statement of Financial Position classification of the related debt. During the year the Group and the Company interest rates ranged between 3.34% and 6.53% (2015: 4.25% and 6.30%).

4. TAXATION

4.1. Reconciliation of income tax

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Financial Statements as follows:	Notes	Group 2016 $'000	2015 $'000
Profit before income tax expense		**2,633**	**6,543**
Tax at current rate 28%		738	1,832
Plus/(less) tax adjustments:			
Non-deductible expenses		6	5
Non-taxable income		313	(210)
Group loss available for offset		(234)	(269)
Income tax expense on the Income Statement, comprising:		**823**	**1,358**
Current tax expense		1,677	1,483
Deferred tax expense/(credit)		(854)	(125)
		823	**1,358**

Income tax policies

Income tax expense comprises current and deferred tax and is calculated using tax rates that have been enacted on substantively enacted by the end of the reporting period.

Current and deferred tax are recognised in the Income Statement, except when it relates to transactions recognised in other comprehensive income or items charged or credited directly to equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly into equity respectively.

4.2 Current tax asset/(liability)

	Group	
	2016 $'000	**2015 $'000**
Balance at beginning of the year	**(364)**	**(335)**
Current tax expense	(1,677)	(1,483)
Income tax paid (net of refunds)	2,470	1,454
Balance at end of the year	**429**	**(364)**

Current tax policies

Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

4.3. Deferred tax liability

The deferred tax liability balance reported in the Statement of Financial Position arises from the following temporary differences:

Deferred Tax Liability/(Asset)	**Derivative Financial Instruments $'000**	**Property, Plant and Equipment $'000**	**Investment Property $'000**	**Intangible Assets $'000**	**Provisions $'000**	**Totals $'000**
Balance at 1 July 2014	**(77)**	**6,499**	**2,274**	**-**	**(186)**	**8,510**
Recognised in:						
Profit or loss	(297)	(213)	328	72	(15)	(125)
Other comprehensive income	-	-	-	-	-	-
Balance at 30 June 2015	**(374)**	**6,286**	**2,602**	**72**	**(201)**	**8,385**
Recognised in:						
Profit or loss	(423)	(83)	(430)	72	10	(854)
Other comprehensive income	-	5,759	-	-	-	5,759
Balance at 30 June 2016	**(797)**	**11,962**	**2,172**	**144**	**(191)**	**13,290**

Deferred tax policies

- Recognised on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- Generally recognised for all taxable temporary differences, however, not recognised for the initial recognition of goodwill.
- Recognised to the extent that taxable profits will be available for when the temporary differences are reversed and utilised.
- Calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

4.4. Imputation credit account balances

	Group	
	2016 $'000	2015 $'000
Available directly and indirectly to shareholders of the parent company, through Parent company	10,049	8,666

5. TRADE AND OTHER RECEIVABLES

	Group	
	2016 $'000	2015 $'000
Current	2,560	1,940
Past due 1-30 days	98	80
Past due 31-60 days	17	85
Past due greater than 60 days	46	105
	2,721	2,210
Less provision for doubtful debts	(50)	(50)
Other related party	-	373
Total Trade and other Receivables	2,671	2,533

Trade and other receivables policies

Trade receivables are measured on initial recognition of fair value. Allowances are made for estimated unrecoverable amounts (provision for doubtful debts), and these are recognised in the Income Statement. The provision for doubtful debts is measured as the difference between the trade receivables carrying amount and future expected cash flows, which has considered customer creditor history and historical recovery of receivables.

6. INVENTORIES

	Group	
	2016 $'000	2015 $'000
Goods held for maintenance: **At Cost**	269	302

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision has been made for obsolescence where applicable. Inventories are held for maintenance purposes only.

7. SUBSIDIARIES

The Company has the following subsidiaries:

	Country of Incorporation	Nature of Business	2016 %	2015 %
Waikawa Marina Trustee Limited	New Zealand	Trustee	100	100
PMNZ Marina Holdings Limited	New Zealand	Non Trading	100	100

Port Marlborough New Zealand Limited is the head entity within the consolidated Group. Port Marlborough New Zealand Limited is 100% owned by MDC Holdings Limited, which in turn is 100% owned by Marlborough District Council, the ultimate parent entity. From a financial perspective, both the level of investment ($200) and trading activity is negligible.

8. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold Land at fair value $'000	Improvements at fair value less Depreciation $'000	Buildings at fair value less Depreciation $'000	Wharf Infrastructure at fair value less Depreciation $'000	Plant, Equipment Furniture and Vehicles at Cost $'000	Work in progress $'000	Total $'000
Gross carrying amount							
Balance 30 June 2014	**14,869**	**7,332**	**9,079**	**30,276**	**8,433**	**619**	**70,608**
Additions	-	18	43	143	366	2,503	3,073
Disposals	-	-	-	-	(129)	-	(129)
Transfers from Capital Works in progress	-	1,458	481	380	243	(2,562)	-
Transfers to Investment Property	-	-	-	-	(425)	-	(425)
Balance 30 June 2015	**14,869**	**8,808**	**9,603**	**30,799**	**8,488**	**560**	**73,127**
Additions	-	-	1	-	273	4,060	4,334
Disposals	-	-	-	-	(68)	-	(68)
Transfers from Capital Works in progress	-	511	-	3,725	46	(4,282)	-
Net Revaluation increments/ (decrements)	5,840	2,845	466	12,233	(297)	-	21,087
Impairments reclassified*	30	495	297	337	6	-	1,165
Balance 30 June 2016	**20,739**	**12,659**	**10,367**	**47,094**	**8,448**	**338**	**99,645**

GROUP	Freehold Land at fair value $'000	Improvements at fair value less Depreciation $'000	Buildings at fair value less Depreciation $'000	Wharf Infrastructure at fair value less Depreciation $'000	Plant, Equipment Furniture and Vehicles at Cost $'000	Work in progress $'000	Total $'000
Accumulated depreciation/amortisation and impairment							
Balance 30 June 2014	**-**	**246**	**245**	**1,287**	**3,890**	**-**	**5,668**
Disposals	-	-	-	-	(128)	-	(128)
Depreciation expense - Note 3.2	-	261	246	1,147	546	-	2,200
Transfers Investment Property	-	-	-	-	(45)	-	(45)
Balance 30 June 2015	**-**	**507**	**491**	**2,434**	**4,263**	**-**	**7,695**
Disposals	-	-	-	-	(43)	-	(43)
Impairment - Note 3.2	1,432	(311)	(127)	(32)	-	-	962
Depreciation expense - Note 3.2	-	334	260	1,157	566	-	2,317
Net adjustment from revaluation increments/decrements)	-	(841)	(751)	(3,351)	(376)	-	(5,319)
Impairments reclassified*	30	495	297	337	6	-	1,165
Balance 30 June 2016	**1,462**	**184**	**170**	**545**	**4,416**	**-**	**6,777**
Net Book Value							
As at 30 June 2015	14,869	8,301	9,112	28,365	4,225	560	65,432
As at 30 June 2016	19,277	12,475	10,197	46,549	4,032	338	92,868

* The carrying amount for assets has been grossed up for prior impairments which are now reported as part of Accumulated depreciation/amortisation and impairment. This has no impact on the carrying value of Property, Plant and Equipment, or the amortisation charged for the year.

8.1. Port Marlborough New Zealand Limited property, plant and equipment policies

- Freehold land
- Buildings
- Improvements
- Wharves infrastructure
- Plant, equipment, furniture and vehicles
- Work in progress

Freehold land and buildings are initially stated at cost, and subsequently revalued to fair value by an independent valuer and by reference to the assets highest and best use, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Additions between valuations are recorded at cost. Cost represents the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service.

Revaluation increments are credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the Income Statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. On disposal, the attributable revaluation surplus remaining in the revaluation reserve, net of any related deferred taxes, is transferred directly to Retained Earnings.

Improvements – Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at fair value.

Wharves infrastructure – are recorded at valuation established using depreciated replacement cost, plus additions at cost less accumulated depreciation and impairment losses (if any).

All other items of property, plant and equipment are stated at cost or deemed cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses (if any).

Depreciation commences when the asset is ready for use and is charged to Income Statement on all Property, Plant and Equipment other than land and work in progress, over their estimated useful lives using the straight-line method. The useful lives and estimated residual values are reviewed at each balance date and amended if necessary.

Depreciation on revalued assets is charged to the Income Statement. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

The following estimated useful lives of major classes of assets are used in the calculation of depreciation rates:

Buildings	30 – 100 years
Improvements	20 – 50 years
Wharves infrastructure	10 – 50 years
Plant, equipment, furniture and vehicles	2 – 10 years

8.1.1. Valuation basis

An independent valuation of PMNZL land, buildings, improvements and wharf infrastructure is performed on a three yearly basis. The latest review was at balance date, 30 June 2016. The valuation was performed by Colliers International, independent registered valuers and associates of the NZ Institute of Valuers, with Engineering input from Opus. The valuers have recent experience in the location and category of the items being valued. The fair values of the assets represent the estimated price for which an asset could be sold on the date of valuation in an orderly transaction between market participants. PMNZL rotate valuers regularly.

PMNZL's valuation reports are provided to both the CEO and CFO of PMNZL for review. The review focuses on checking material movements and ensuring all additions and disposals are captured. The Valuation Reports are also reviewed by a sub-committee of the Board.

Valuations have been updated for subsequent additions at cost, less any subsequent depreciation or impairment losses. Any revaluation surplus net of deferred income taxes is credited to other comprehensive income and is shown in Reserves (refer note 15.2).

8.1.2. Fair value model

Assets have been categorised as specialised or non-specialised:

Specialised

In general terms these assets are:

- Only useful to particular uses or users,
- Rarely, if ever, sold on the open market, except as part of a total business, and
- Generally specialised structures located in particular geographical locations for business reasons.

Wharf infrastructures and improvements (hardstand, roads, services etc) generally fall into this category. For these assets fair value has been based on depreciated replacement cost (DRC) due to the limited market based evidence as the item is rarely sold, except as part of a continuing business.

Non-specialised

Assets in this category comprise land and buildings, one or more of the following valuation methodologies has been adopted for each asset:

- Comparable sales approach
- Depreciated Replacement Cost Value (DRC)
- Investment Value – Rental Capitalisation
- Investment Value – Discounted Cash Flow

8.1.3. Cost model

The carrying amount of PMNZL land, buildings, improvements and wharf infrastructure had they been recognised under the cost model is as follows:

	Group	
	2016 $'000	**2015 $'000**
Freehold land	5,706	5,706
Buildings	3,968	4,001
Improvements	7,572	7,441
Wharf infrastructure	18,114	14,586

9. INVESTMENT PROPERTY

		Group	
	Notes	**2016 $'000**	**2015 $'000**
Balance at beginning of financial year		75,756	74,034
Additions from subsequent expenditure		1,140	161
Capital Work in Progress		539	451
Disposals		-	-
Transfers Property, Plant and Equipment	8	-	380
Net (loss)/gain from fair value adjustments		(2,418)	730
Balance at end of financial year		**75,017**	**75,756**

9.1. Investment property policies

Investment property is property held primarily to earn rentals and/or for capital appreciation, and includes PMNZL's marinas, reclamation land and their supporting facilities located in Marlborough.

Investment property is stated at its fair value at balance date. An external, independent valuation firm, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. The fair values are based on market values, being the estimated price for which a property could be sold on the date of valuation in an orderly transaction between market participants.

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.

9.2. Valuation basis

Investment properties were valued on 30 June 2016 and 2015 by Colliers International, independent registered valuers and associates of the NZ Institute of Valuers. Board policy is to rotate valuers on a three to four year cycle basis.

The Valuers have recent experience in the location and category of the item being valued. The fair value of the assets represents the estimated price for which an asset could be sold on the date of valuation in an orderly transaction between market participants.

At each reporting date, the valuation reports are provided to both the CEO and CFO for review. The review focuses on checking material movements and ensuring all additions and disposals are captured. The CEO is a qualified valuer and has an extensive background in property management.

The Valuation Reports are also reviewed by a sub-committee of the Board. A summary report on valuation movements is provided to the Board and full copies of the valuer's reports are available to Directors.

9.3. Fair Value Measurement of Group Investment Properties

Investment property assets are located in Picton, Waikawa Bay and Havelock. The assets comprise a mix of rural, residential, port-related commercial and industrial and the marinas in each of the three locations. Total land area is 51.45 hectares.

In completing valuations of investment property assets, one or more of the following valuation methodologies has been adopted for each asset:

- Comparable Sales approach
- Depreciated Replacement Cost Value (DRC)
- Investment Value – Rental Capitalisation
- Investment Value – Discounted Cashflow

The Marinas comprise the bulk of investment properties. Discounted cashflow valuations were completed for the three marinas using the following rates.

Discounted Cashflow Summary (Rates)

Property	2016	2015
Picton Marina	9.00%	9.25%
Waikawa Marina	9.50%	9.75%
Havelock Marina	10.25%	10.25%

The variations in the discount rate adopted reflect the investment strength of each of the respective Marinas. In the case of rental capitalisation for commercial property, rates adopted ranged between 9.00% and 10.25%. (2015: 9.25% and 10.25%).

10. OTHER INTANGIBLE ASSETS

	Group 2016 $'000	Group 2015 $'000
Software gross carrying amount		
Balance at beginning of financial year	1,201	1,154
Additions	16	88
Disposals	-	(41)
Balance at end of financial year	**1,217**	**1,201**
Software accumulated amortisation & impairment		
Balance at beginning of financial year	372	287
Disposals	-	(41)
Amortisation (i)	120	126
Balance at end of financial year	**492**	**372**
Software net book value at end of financial year	**725**	**829**

(i) Amortisation expense is included in the line item 'depreciation, impairment and amortisation expense' in the income statement.

Intangible assets policies

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives up to 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

11. TRADE AND OTHER PAYABLES

	Group 2016 $'000	Group 2015 $'000
Trade creditors	694	1,258
Property, Plant and Equipment	260	198
Rentals received in advance	502	485
Employee expenses	823	755
Other	-	8
Related Parties		
– Subvention payments	326	373
– Interest	155	182
	2,760	3,259

Trade and other payables policies

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

Employee expenses

Provision is made for benefits owing to employees in respect of wages and salaries, annual leave, long service leave. Provisions are recognised where it is probable they will be settled and can be measured reliably. Provisions are based on current application of remuneration rates.

12. BORROWINGS

	Group	
	2016 $'000	2015 $'000
Borrowings from MDC Holdings Ltd (parent) secured – at amortised cost	31,500	31,500
Classified as:		
Current	-	-
Non-current	31,500	31,500

Loan Maturities

Funds have been raised under a loan facility held by MDC Holdings Limited (parent). MDC Holdings have signalled through their Statement of Corporate Intent, their intention to meet the Company's long term funding requirements.

Interest and Security

Term loans incurred an interest expense of $1,803,850 (2015: $1,885,588). Interest rates ranged between 3.34% and 6.53% (2015: 4.25% and 6.30%). A Negative Pledge Deed has been entered into with MDC Holdings Limited.

Borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing, and subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated taking into account any issue costs, and any discount or premium on drawdown.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below.

	Group	
	2016 $'000	2015 $'000
Interest rate swap asset/(liability) at fair value		
Classified as:		
Current	(143)	(49)
Non-current	(2,701)	(1,283)
Net interest rate swap	(2,844)	(1,332)

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date.

Notional Amount $'000	Fair Value $'000	Interest Rate %	Fixed Term remaining
3,500	(143)	5.575	1 July 2016 – 30 June 2017
4,000	(182)	3.930	1 July 2016 – 22 January 2019
7,000	(1,308)	5.210	1 July 2016 – 28 March 2024
5,000	(276)	4.150	1 July 2016 – 28 June 2019
5,000	(222)	3.770	28 June 2019 – 28 June 2024
5,000	(581)	4.910	1 July 2016 – 23 February 2021
5,000	(132)	3.730	23 February 2021 – 23 February 2025
34,500	**(2,844)**	Balance as at 30 June 2016	
34,500	**(1,332)**	Balance as at 30 June 2015	

Derivatives policies

The Company and Group enters into derivatives financial instruments (interest rate swaps) to manage interest rate risk. These swaps:

- Are initially recognised at fair value on the date contract is entered into and are subsequently re-measured to their fair value. The fair value of the interest rate swaps are determined using inputs supplied by third parties based on quoted prices in active markets for identical assets/liabilities. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves taking into account the effect of credit risk (CVA/DVA).
- Do not qualify for hedge accounting.
- Have the changes to the fair value recognised in the Income Statement (refer Note 3.2).
- Are not used for speculative purposes.

14. CAPITAL AND OTHER EQUITY INSTRUMENTS

	Group	
	2016 $'000	2015 $'000
13,587,650 fully paid ordinary shares (2015: 13,587,650)	13,588	13,588
	13,588	13,588

All shares are of the same class, they carry one vote per share and carry the right to dividends.

Equity instruments policies

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

15. RESERVES

15.1 Capital reserve

	Group	
	2016 $'000	2015 $'000
Balance at beginning of financial year	2,693	2,693
Movements	-	-
Balance at end of financial year	2,693	2,693

The capital reserve is used from time to time to transfer capital profits from retained earnings. There is no policy of regular transfer.

15.2 Asset revaluation reserve

	Group	
	2016 $'000	2015 $'000
Balance at beginning of financial year	33,076	33,076
Revaluation increments/(decrements)	26,406	-
Deferred tax – Property revaluations	(5,759)	-
Transfer retained earnings (note 16)*	(4,825)	-
Balance at end of financial year	48,898	33,076

The asset revaluation reserve arises on the revaluation of wharves and jetty facilities, operational land and buildings (excludes Investment property). Where a revalued wharf, jetty facility, land or building is sold etc, that portion of the asset revaluation reserve which relates to that asset, is transferred directly to retained earnings.

* The transfer to retained earnings represents prior impairment recoveries and merely reflects a reallocation of balances within the overall Equity Account.

16. RETAINED EARNINGS

	Group 2016 $'000	Group 2015 $'000
Balance at beginning of financial year	52,193	49,114
Net profit/(loss) attributable to members of the Parent entity	1,810	5,185
Dividends paid (note 17)	(2,093)	(2,106)
Transfer from asset revaluation reserve (note 15.2)	4,825	-
Balance at end of financial year	56,735	52,193

17. DIVIDENDS

	2016 Cents per Share	2016 TOTAL $000	2015 Cents per Share	2015 TOTAL $000
Recognised amounts				
Fully paid ordinary shares	15.4	2,093	15.5	2,106

In addition, the above cash distributions carried maximum imputation credits.

Dividends paid are classified as distributions of profit consistent with the Statement of Financial Position classification of related equity instruments.

18. COMMITMENTS FOR EXPENDITURE

	Group 2016 $'000	Group 2015 $'000
Capital expenditure commitments		
Property, Plant and Equipment	995	423
	995	423

19. LEASES

19.1. The Group as Lessee

Lessee policies

Rentals payable under operating leases, where the lessors effectively retain risks and benefits of ownership, are recognised in profit and loss on a straight-line basis over the term of the lease term.

Non-cancellable operating lease payments	Group 2016 $'000	Group 2015 $'000
Not longer than 1 year	-	-
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	-

19.2. The Group as Lessor

Lessee policies

Rentals income from operating leases is recognised on a straight-line basis over the term of the relevant lease. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at expiry of the lease period.

	Group	
Non-cancellable operating lease payments	**2016 $'000**	**2015 $'000**
Not longer than 1 year	5,409	3,791
Longer than 1 year and not longer than 5 years	10,730	6,115
Longer than 5 years	10,812	3,227
	26,951	13,133

Leasing arrangements

Operating leases relate to rental property owned by the consolidated entity with lease terms of up to 30 years, with provision for renewal. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

20. CONTINGENT ASSETS AND LIABILITIES

	Group	
	2016 $'000	**2015 $'000**
	-	-

2016 Group and Parent Contingent assets

There are no contingent assets (2015: Nil)

2016 Group and Parent Contingent liabilities

In the normal course of business the Company and Group are subject to potential loss contingencies arising from such matters as guarantees and contractual obligations by government and private parties. In the judgement of Directors no losses in respect of such matters are expected to be material to the Group's financial position.

21. STATEMENT OF CASH FLOWS

Statement of cash flows policies

Operating activities

Operating activities include cash received from all income sources of the Company and Group and record the cash payments made for the supply of goods and services.

Investing activities

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities

Financing activities comprise activities that change the equity and debt capital structure of the Company and Group.

21.1. Reconciliation of profit for the period to net cash flows from operating activities

		Group	
	Note	2016 $'000	2015 $'000
Profit after tax for the period		1,810	5,185
Loss/(Gain) on sale or disposal of non-current assets		6	(24)
Loss/(Gain) on revaluation of investment property	9	2,418	(730)
Loss/(Gain) on revaluation of derivative instruments	3.2	1,512	1,060
Depreciation, impairment and amortisation of non-current assets	3.2	3,399	2,326
Decrease in deferred tax balances	4.3	(854)	(125)
Changes in net assets			
(Increase)/decrease in assets:			
Current receivables		(138)	(213)
Current inventories		33	28
Increase/(decrease) in liabilities:			
Current payables		(499)	506
Current tax		(793)	29
Net cash from operating activities		6,894	8,042

21.2. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statements can be reconciled to the related items in the Statement of Financial Position as follows:

	Group	
	2016 $'000	2015 $'000
Cash and cash equivalents	329	1,538

Cash and cash equivalents policies

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

21.3. Cash balances not available for use

Cash balances not available for use Nil (2015: Nil).

22. RELATED PARTY DISCLOSURES

22.1. Parent entities

The Parent entity in the consolidated entity is Port Marlborough New Zealand Limited, which is 100% owned by MDC Holdings Limited which is in turn 100% owned by the ultimate Parent entity, Marlborough District Council.

In the normal course of business the Group incurs expenses on an arm lengths basis from its ultimate controlling Shareholder Marlborough District Council and other Companies comprising the MDC Holdings Group.

Transactions involving Parent entities

During the year transactions between Port Marlborough New Zealand Limited and its Parent entities included:

	Group	
MDC Holdings Limited	**2016 $'000**	**2015 $'000**
Loan finance costs *	(1,805)	(1,885)
Subvention payments **	(373)	(367)
Derivative losses	(1,512)	(1,060)
Dividends paid	(2,093)	(2,106)
Marlborough District Council		
Services provided	62	47
Harbour and navigational levies	(430)	(430)
Rates and other services	(752)	(843)
Land purchases	(59)	-

* *During the financial year, Port Marlborough New Zealand Limited entered into an arrangement with MDC Holdings Limited, whereby the parent entered into interest rate hedging arrangements and obtained borrowings on behalf of Port Marlborough New Zealand Limited. All financing obtained by the parent was on lent to Port Marlborough New Zealand Limited on a matched funding basis.*

** *Port Marlborough New Zealand Limited has a tax loss share arrangement with its parent in exchange for subvention payments. The transaction is cost neutral for Port Marlborough New Zealand Limited.*

22.2. Year end

At year-end the following outstanding balances with parent entities were recorded as an asset/(liability):

	Group	
MDC Holdings Limited	**2016 $'000**	**2015 $'000**
Loan advance	(31,500)	(31,500)
Derivative	(2,844)	(1,332)
Interest	(155)	(182)
Subvention payment	(326)	(373)
Marlborough District Council		
Receivables	-	372
Payables	-	-

22.3. Subsidiaries

Details of ordinary shares held in subsidiaries are disclosed in note 7 to the Financial Statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

During the current and previous financial year, Port Marlborough New Zealand Limited provided accounting and administration services to its subsidiaries for no consideration (2015: Nil).

22.4. Guarantees provided or received

Nil.

22.5. Directors

Mr Johnson is a shareholder or Director of:
Fulton Hogan Limited who undertook construction work for the year totalling $417,165 (2015: $1,498). Nil (2015: $722) was payable to Fulton Hogan Limited as at 30 June.
Goldpine Group Ltd who provided fencing materials during the year totalling $3,513. $3,305 was payable to Goldpine Group Ltd at 30 June.
ECL Group Ltd who provided fuel equipment and servicing during the year totalling $42,453.

Mr KB Taylor is a Director of Southern Cross Medical Care Society, whom the company paid $58,614 for employee health insurance (2015: $43,797).

MP Drummond is a Director of Watercare Services Ltd, whom the Company paid $12,098 (2015: $12,098) for TSP and deposited dust monitoring. $1,008 (2015: $1,008) was payable as at 30 June.

22.6. Key Management Personnel Compensation

Included in the employee benefit expenses is the compensation of the Directors and Executives, being the key management personnel of the entity, which is set out below:

	Group	
	2016 $'000	2015 $'000
Employee benefits	1,063	1,132
Directors fees	210	210

22.7. Marina Facilities

A number of related parties, including Directors, and employees of Port Marlborough New Zealand Limited utilise the Company's Marina facilities, all transaction are at standard commercial rates.

23. EVENTS AFTER THE REPORTING PERIOD

At the time of preparation of these Financial Statements there were no post balance date events requiring disclosure (2015: Nil).

COMPANY DIRECTORY

Board of Directors:

Ed G Johnson	BA (Hons) Finance and Accounting MBA (Hons), CFInstD	Chairman
Ian R Boyd	B.For.Sc., CMInstD, MNZIF	(Appointed 11 December 2015)
Peter S Drummond	MNZM, CFInstD	
Martin F Fletcher	CA, MInstD	
Kerry D Hitchcock	BCom, LLB, AREINZ, MInstD	(Retired 11 December 2015)
Mathew B J Kerr	B.B.S. MInstD, CA,	
Keith B Taylor	BSc, BCA, FIA, CFInstD	

Executive:

Ian McNabb	Dip VFM, MInstD, MPINZ	Chief Executive
Dean Craighead	BCom, CA	Chief Financial Officer
Gavin Beattie	BE Mech (Hons) MIPENZ CPEng	Manager Infrastructure
Rose Prendeville	B.Tech (I.E), Dip.PM (NZIM)	Manager Projects and Support
Rhys Welbourn	MBA, BA (Hons), PG Dip. GIS, Dip Eng (Civil)	Manager Business Delivery

Registered Office:

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www.portmarlborough.co.nz

Auditor	Mike Hoshek of Deloitte, for the Office of the Auditor General
Legal Advisor	Radich Law
Banker	Bank of New Zealand

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