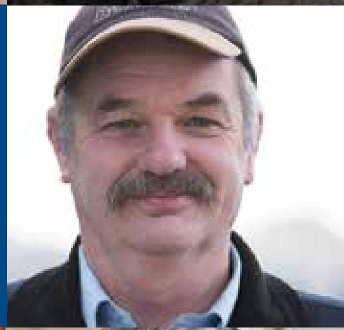
# 2017

## 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**

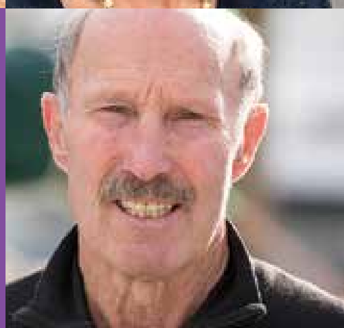


**SAFETY**

We prevent harm to people in our workplace

**INTEGRITY**

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



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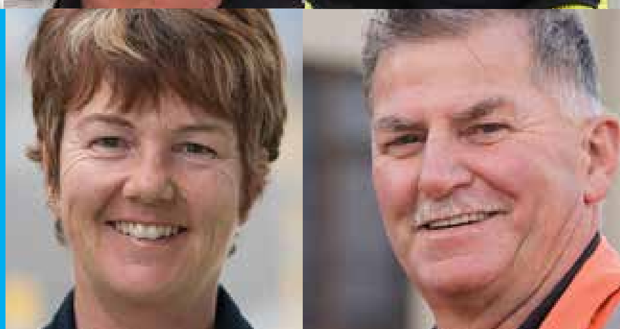
**ENVIRONMENT**

We respect our environment and minimise our environmental footprint

**RECOGNITION**

We value and acknowledge our people and what they achieve



**ENGAGEMENT**

We connect openly with our communities


**3,228**
Vessel visits over 500GRT

**2,942,199**
Ferries: Lane metres freight (rail and commercial vehicles)

**686,999**
JAS logs exported RECORD VOLUME

# THE 2017 YEAR IN SUMMARY

Results in Brief and Operational Summary

| Group Results | 2017 | 2016 |
|---|---|---|
| Operating Surplus (Loss) before Non-Cash Revaluations, Tax and Subvention Payment | $9.645m | $6.889m |
| Valuation Adjustments Non-Cash | | |
| - Property | ($0.751m) | ($2.418m) |
| - Financial Derivatives | $1.177m | ($1.512m) |
| Operating Surplus (Loss) before Tax and Subvention Payment | $10.071m | $2.959m |
| Provision for Tax and Subvention Payment | ($2.865m) | ($1.149m) |
| Operating Surplus / (Loss) After Tax | $7.206m | $1.810m |
| After Tax Return on Average Shareholder's Funds (excludes non-cash revaluations) | 5.09% | 5.35% |
| Net Asset Backing per Share | $9.17 | $8.97 |
| Interim Dividends | 8.4c | 7.0c |
| Final Dividend – Recommended per Share | 14.0c | 10.0c |
| Dividend – Interim and Proposed Final | $3.044m | $2.310m |

| Contribution to Group Revenues | 2017 ($000) | 2016 ($000) |
|---|---|---|
| Port Installations and Services | 16,844 | 15,972 |
| Investment Property (includes Marinas) | 9,669 | 9,015 |
| Marine Farm Facilities | 763 | 759 |
| Miscellaneous | 121 | 102 |
| **TOTAL GROUP REVENUE*** | **27,397** | **25,848** |

** Excludes non-cash revaluations*

39
Cruise ship visits

1,125,342
Passengers through Port
(Ferry and cruise ship passengers)

1,409
Vessels accommodated at marinas

# KEY OPERATIONAL PERFORMANCE INDICATORS

| **Number of Ship Visits** | 2017 | 2016 | 2015 |
|---|---|---|---|
| Ferries | 3,032 | 3,534 | 3,573 |
| Cruise Ships | 39 | 35 | 36 |
| Other over 500 GRT | 157 | 151 | 123 |
| **Total Ship Visits** | **3,228** | **3,720** | **3,732** |
| **Non-Ferry Cargoes** | | | |
| Logs (Export and Domestic, JAS '000s) | 749,241 | 705,547 | 708,139 |
| Salt (Tonnes) | - | 27,106 | - |
| Cement (Tonnes) | 18,436 | 9,763 | 6,245 |
| Fish (Tonnes) | 15,594 | 10,357 | 13,303 |
| Other (Tonnes) | 43,853 | 34,141 | 32,638 |
| **Total Cargo (Tonnes)** | **827,124** | **786,914** | **760,325** |
| **Marina Facilities** <br> **Berth Occupancy (average %)** | | | |
| Havelock Marina (369 berths) | 76.8% | 69% | 69% |
| Waikawa Marina (473 berths) | 94.6% | 96% | 92% |
| Picton Marina (207 berths) | 100.2% | 100% | 98% |
| **Total Average Occupancy** | **89.5%** | **89%** | **85%** |

# 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. The Port operates New Zealand's deepest export shipping berth at Waimahara Wharf in Shakespeare Bay, and a multipurpose berth at Waitohi Wharf in Picton Harbour. Picton is a popular cruise ship port, and the Waimahara Berth has capacity for the largest class of cruise vessel.

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 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.

## 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 cargoes and general cargoes
- Extensive landholdings 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

## 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).*

# REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

**Despite unprecedented disruption to the South Island's primary transport and logistics chains following the Kaikoura earthquake in November 2016, Port Marlborough has again returned a record result through strong performance across the business.**

The initial 7.8 magnitude quake severely damaged land and infrastructure along the East Coast from North Canterbury to Marlborough, and in Wellington. Both the Main Trunk rail line and State Highway 1 suffered devastating damage, forcing their immediate closure and the re-routing of transport through the top of the South Island.

Ian McNabb
*(Chief Executive)*

Ed Johnson
*(Chairman)*

While Picton escaped extensive damage and most Port Marlborough facilities were back in service within 24 hours, the wider impacts of supply chain interruptions and extended travel times have had significant consequences for many of our port and marina customers.

Cook Strait ferry freight volumes held steady, however with the travel time from Picton to Christchurch doubled and road conditions uncertain, growth in passenger vehicle numbers stalled and previous revitalisation of the ferry passenger business lost ground.

Marlborough's log cut continued unabated with record export volumes again through Shakespeare Bay and increased volumes delivered to the domestic market from the Marlborough Sounds.

The highlight of the cruise ship season was undoubtedly the inaugural visit of *Ovation of the Seas* to Picton on Christmas Eve, contributing to another record year for cruise ship visitors to the region. The can-do approach of our staff and the wider Picton and Marlborough communities in bringing this vessel to Marlborough was an impressive achievement. All involved can be justifiably proud that Picton was lauded the third top cruise port in Australasia – just behind Sydney – in the 2017 Trip Advisor cruise awards.

In the recreational sector, Marina occupancy improved overall but general activity around the Marinas (and wider Marlborough) was noticeably quieter over summer as a result of constrained road access into Marlborough.

Cook Strait ferry operators have necessarily been focused on operational challenges faced by their clients within the disrupted transport environment, and planning for future redevelopment of Picton ferry and freight marshalling infrastructure has been temporarily delayed. As anticipated, Interislander gave formal notice of contract renewal during the period and negotiations are well advanced. The new commercial contract secured with Strait Shipping in 2016 is unaffected by their change of ownership in December.

Port capital investment has centred on expansion of the Waimahara Berth to accommodate Quantum and Oasis class cruise vessels, and a search for an additional harbour tug to support increased shipping activity. Half-life refurbishment of Waikawa Marina is well underway, and planning continued for future expansion of Waikawa Marina.

There has been further consolidation of the Company's internal processes with a particular focus on asset management. We continued to maintain our operations within the provisions of the New Zealand Port and Harbour Marine Safety Code, consistent with our ongoing commitment to navigational safety.

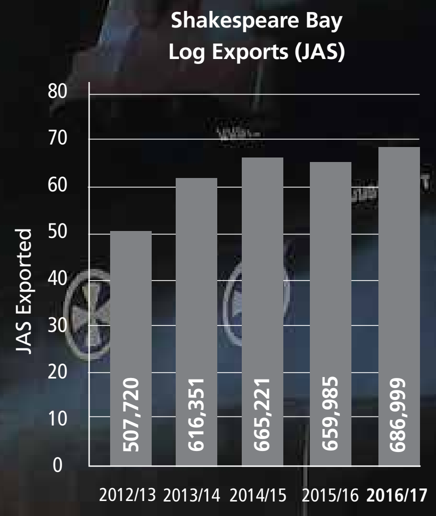

# 2016/17 STATEMENT OF CORPORATE INTENT PERFORMANCE TARGETS

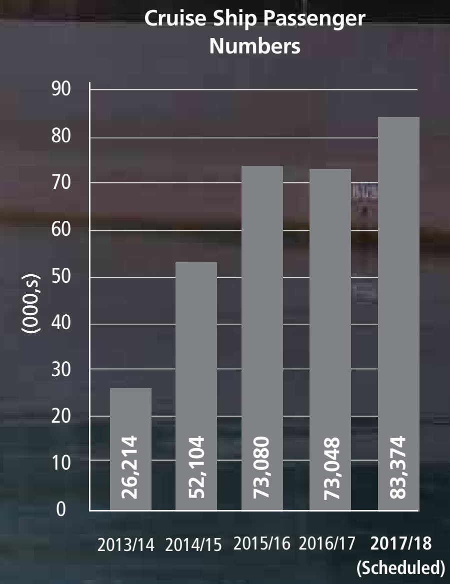
The targets for financial and operational performance, as detailed in the 2016/17 Statement of Corporate Intent, are compared below with actual results achieved for the period 1 July 2016 to 30 June 2017.

| FINANCIAL PERFORMANCE | TARGET | RESULT |
|---|---|---|
| Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA) - excludes non cash revaluations | $12.70m | $13.96m |
| Return on Shareholder's Funds (excluding non-cash revaluations) | 4.9% | 5.1% |
| Equity Ratio | 70.3% | 72.9% |

| OPERATIONAL PERFORMANCE | | |
|---|---|---|
| Ferry freight movement (% volume movement to prior year) | 2.0% | 1.1% |
| Export log volumes | 690,000 JAS | 686,999 JAS |
| Cruise ship visits | 39 | 39 |
| Marina berth occupancy | 88.3% | 89.4% |
| Marina boatshed occupancy | 98% | 98.8% |

| HEALTH AND SAFETY | | |
|---|---|---|
| Lost time accidents frequency rate (per 100,000 work hours) | 0 | 2.6 |
| Number of injury accidents | <5 | 5 |




# FINANCIAL PERFORMANCE

**The Group's revenue increased 6% year-on-year to $27.40 million (2016: $25.85 million). This continues the Company's steady growth trajectory and brings total revenue growth across the past five years to 40.5%.**

Total cargo tonnage through the Port grew 6% (up 7% on budget) underpinned by strong log volumes, steady interisland ferry freight performance and significant increases in cement and fish trades. The port has undertaken a number of property developments over recent years, targeted for strategic fit with core port and marina activities. This portfolio is now making a consistent and significant contribution to overall business performance.

Group pre-tax operating surplus at $9.65 million (adjusted for non-cash revaluations and subvention payment) for the year ended 30 June 2017 reflects positive operational results across the business.

Capital investment in core port infrastructure continued. Berth capacity alongside Waimahara Wharf was expanded to accommodate Quantum and Oasis class cruise vessels. A new wharf was constructed at Westshore to meet the growing demand for barge and smaller vessel berths. Continually increasing vessel size and volumes of shipping traffic through the Port has underscored the need for a second harbour tug, with purchase of the Monowai timed for early in the 2018 financial year. Half-life refurbishment of Waikawa Marina berths started in spring will be completed in the 2018 year. Development continued within the integrated property portfolio and a number of projects were either underway or in planning or negotiation stages at balance date.

# FINANCIAL POSITION AND DIVIDEND

The value of total Group assets at $170.95 million is consistent with the previous year. The Group's equity ratio of 72.9% is satisfactory and is considered appropriate for our diversified business portfolio.

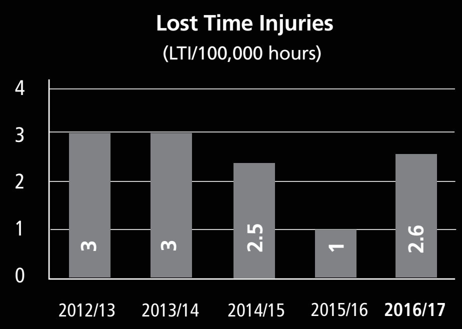
Directors are proposing a final dividend of $1.90 million, bringing the total distribution for the year to $3.04 million. Port Marlborough has distributed a total of $29.2 million in dividends to our shareholder, a wholly owned subsidiary of Marlborough District Council, over the last ten years and $67 million since the Company was established in 1988.

# GOVERNANCE

Mr Andrew Besley was appointed to the Board effective 1 July 2016. Directors Ed Johnson and Martin Fletcher retired from the Board by rotation at the December 2016 AGM and were reappointed.

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 paramount 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 commitment to ensure that all health and safety processes are fully understood by all staff and are easily accessible to them.

Consistent with outcomes of an external due diligence audit, improvement activities continued through the year with a primary focus on health and safety as an embedded component of all work within the Port and Marinas. Engagement of the established Port User Forums in development of specific risk assessments and safety plans for high risk, multi-user areas within the Port has delivered immediate benefits in user awareness and safety responsibility. This approach will be rolled through to other operational areas in coming months. A major focus for the next period is translation of the Company's existing Health and Safety Management System to an on-line platform. The objective is to provide staff with immediate access to improved tools and real-time information in a 'live' environment, thus better enabling individuals to more actively participate in the health and safety task within their workplaces.

# OUR PEOPLE

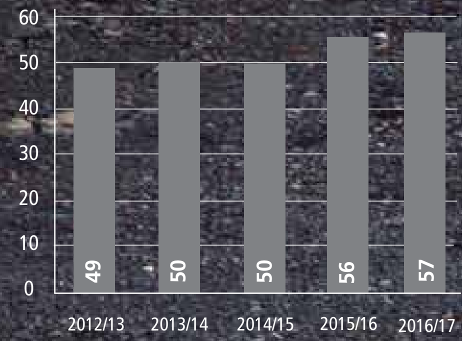
This year we have celebrated a number of service milestones with staff, some of whom have served the Port for more than forty years. The depth of knowledge of our long-serving staff is an enormous asset to our business and we are grateful for their ongoing contribution.

The incremental growth continuing across the breadth of Port Marlborough's business portfolio provides a stimulating and at times challenging work environment. We have welcomed the willingness of our people to embrace the ongoing evolution of 'the way we do things'.

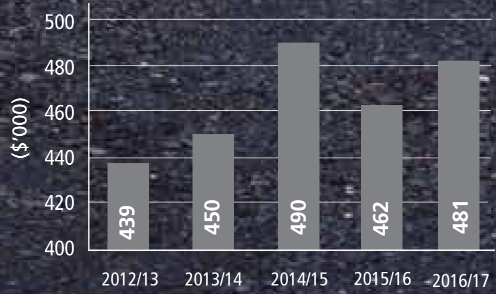
Many of Port Marlborough's staff are members of and are represented by the Rail and Maritime Transport Union. During the year the Company and the RMTU established a Joint Consultative Forum as a vehicle through which to cooperatively improve delivery of the Company's business, discussing items of an operational nature including Health and Safety. We value the input of the RMTU to our operation, and acknowledge their contribution.

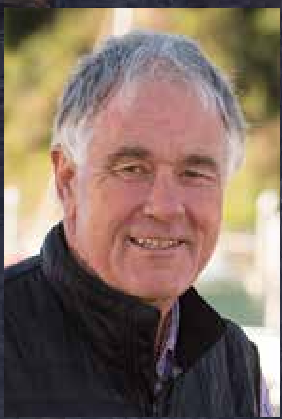
Towards the end of the year the Chief Executive, Ian McNabb, indicated his intention to retire in December 2017. The process of recruiting a new Chief Executive is well advanced at the time of writing.

**Total Staff**
(Measured as Fulltime Equivalents employed at year end)




**Revenue per Fulltime Employee**



***Dean Craighead***
*Chief Financial Officer*
*28 years' service*
*1987 – 2003; 2005 – present*

*Dean Craighead joined the Marlborough Harbour Board as head of Finance in May 1987, hoping to gain some commercial experience following around eight years with Audit NZ. Little did he know that just a few months later the Port Companies Act 1988 would require the commercialisation of all Harbour Boards.*

*This was an incredibly exciting and challenging time, both technically and in terms of the mind-set changes needed to transition from largely a community service provider to running on a fully commercial basis. But the change was achieved, and Port Marlborough was one of just a few Port Companies to be up and running on 1 October 1988, when the new Act took effect.*

*Dean says "What most people don't realise is that the marvellous assets we now have, including the marinas, are there only because we've run the business on a commercial basis. We've generated profits, and been able to reinvest them in developments for the benefit of the region."*

*Dean cites development of the Shakespeare Bay log yard and Waimahara Wharf as a real highlight. "It's just so satisfying to see Shakespeare Bay really contributing to the local economy. Cruise ships too. The true worth of what we can do was shown last summer when we could handle Ovation of the Seas but Auckland couldn't."*

*"I'm really happy to be working for a company that directly contributes to the community of Marlborough. For example, dividends from Port Marlborough made a significant contribution to Stadium 2000 and the Aquatic Centre. And I've thoroughly enjoyed the many people I've worked with over the years, in stable, dedicated work teams who believe in what we are doing."*

***Larry Patterson***

*Fitter Welder*

*40 years' service*

*1977 – present*

*Larry Patterson was a young family man when he joined the Marlborough Harbour Board as a tradesman mechanic in 1977. Other than a stint working on development of the original Havelock Marina Basin, he has been a key member of the Port's Workshop Team ever since, undertaking general engineering construction and maintenance work around the Port. Larry remembers his original workshop colleagues as great tradesmen and "real characters" from whom he learned a tremendous amount.*

*Larry says his job at the Port has enabled him to support his family, their education and sporting interests (both Larry's sons have been accomplished rowers, one a member of the NZ Rowing Team). Larry has achieved a lot of job satisfaction and shared plenty of laughs along the way. "It's been great, there are a million things that we've done - changes to the Ferry Terminal, link spans, long-arms and so on for the different ferries… it's never been boring."*

*He continues to enjoy 'getting a plan and building something". Evidence of his love of a good project, Larry built himself a light plane about ten years ago and has a second about half way through construction; something he will have more time for soon with retirement on the horizon. Larry stressed his appreciation for the company's subsidised employee superannuation scheme, which he says has had a huge influence towards enabling him to retire at the age of 65.*

*It's hard for Larry to single out one job as a highlight because there have been so many. "It's a good reward and enjoyable to feel like you've achieved something when you've finished a project. Even today, I go for a fly over Havelock and it's hard to believe what it is now, from what it once was. The company has done some amazing things in the 40 years I've been here. Waikawa Marina, Shakespeare Bay, Havelock... amazing really."*

# OUTLOOK

Strong trade through the port is forecast to continue through 2018 with log volumes of around 690,000 JAS again expected through Shakespeare Bay. Picton will host more than 40 cruise ship visits during the coming summer. *Ovation of the Seas* will return five times, contributing to a 50% increase in cruise visitors to Marlborough over the previous (record) year.

The expected re-opening of road and rail corridors on the South Island's East Coast will be very much welcomed by Cook Strait ferry operators and their commercial freight customers. We expect to conclude a new commercial contract with Interislander, and look forward to resuming long-term planning for ferry infrastructure requirements.

Activity in the Marinas over the coming summer is likely to rebound when State Highway 1 reopens, significantly easing access for the nearly 50% of our customers who are based in Canterbury. Development of new marina capacity at Waikawa will move a step closer with the intended lodgement of a resource consent application for a 230-berth extension to the North West of the existing marina.

# CONCLUSION

Port Marlborough is consistently delivering sustainable growth and profitability across an increasingly well-balanced business portfolio.

Our established strategy of targeted capital investment in response to customer needs will see continued incremental redevelopment and expansion of core infrastructure over time. In parallel, specific one-off capital investment opportunities for larger projects may lead to step-changes in business activity, with associated funding requirements.

The retiring Chief Executive leaves the business in very good health. We are well-placed to continue to deliver value for our customers, and for Marlborough.

E G (Ed) Johnson
Chairman

I M McNabb
Chief Executive

# REVIEW OF OPERATIONS

**The Company's ongoing recalibration of staffing, systems and infrastructure capability has supported sustained growth across all operational sectors, delivering a 6% increase in revenue year on year.**

## PORT OPERATIONS

Log exports at a new record volume 686,999 JAS were 4.1% up on last year's volumes and 3.3% higher than the previous record levels achieved in 2015. This volume is well within the capacity of the log yard, which with further incremental efficiency improvements will comfortably handle up to one million JAS. Logs barged from the Marlborough Sounds and transiting the Havelock log yard increased to 62,242 JAS.

Despite temporary disruption to Cook Strait ferry services immediately following the November earthquake when Wellington berth infrastructure was damaged, overall interisland freight volumes were similar to 2016. Efficiencies gained through introduction of larger vessels by both operators during the previous year were reflected in a 14% reduction in total ferry movements. Passenger vehicle volumes were flat year on year, and foot passenger numbers softened by 4.5% as the impacts of disrupted travel routes further South took effect.

Christmas Eve 2016 was a red-letter day for the Port, when the Quantum class cruise vessel *Ovation of the Seas* berthed alongside Waimahara Wharf on a gloriously sunny day with 4611 passengers aboard. On her maiden voyage to New Zealand and the first of three visits to Picton during the season, Ovation at 348m LOA and 168,666 GT became the largest ship ever to visit Picton. The overall success of Ovation's visits to Marlborough was rewarded with five visits booked for the 2017-18 cruise season.

In total, the Port hosted 39 cruise ship visits during the 2016-17 season, and provided pilotage services to two further ships that cruised in the Marlborough Sounds but did not visit Picton. Total visitor numbers at 73,048 were consistent with the prior year but slightly down on forecast as four ships cancelled due to bad weather elsewhere. The coming season will see a further 50% lift in passenger numbers to around 113,000, as the proportion of larger cruise vessels visiting the region continues to increase.

In other trade, cement volumes increased following Golden Bay Cement's investment in a new, larger vessel *Aotearoa Chief*. Fish and general cargo volumes were also well ahead of budget.

Tug and Pilot movements were consistent with the previous year; however increasing towage requirements are anticipated with larger log and cruise vessels now commonly in service. Purchase of a second harbour tug will be completed early in the new financial year.


-8M

# MARLBOROUGH SOUNDS MARINAS

**Business performance across the Marinas portfolio improved year on year as occupancy and systems improvements took effect. Sustained demand for marina berths, boatsheds and compounds saw occupancy levels increase in all facilities across each of the three marinas. At Havelock, uptake of berths continued to improve with a further 23 vessels domiciling in the marina by year end.**

With the November earthquake striking just six weeks before the Christmas and New Year period, many regular visitors chose to avoid travel on the alterative highway system and abandoned plans to holiday in the Sounds. All three marinas were quieter than usual throughout the summer; this was especially evident at the launching ramps with significantly less trailer boat activity. A strong recovery is likely as Canterbury-based boat and bach owners return over the coming summer, provided that State Highway 1 reopens before Christmas as planned.

The Waikawa Hardstand and Haulout operation consolidated further. Several hardstand sites previously leased to a specific business were returned to the centralised operation.

We continue to work on simplifying our interface with Marina customers. A survey of all customers completed just before balance date provided positive feedback, and highlighted opportunities for further service improvement.

Programmed half-life berth maintenance continued at Waikawa with the focus shifting to berths on the eastern side of the marina.  With Picton and Waikawa Marinas both effectively full, testing of engineering design for extension of Waikawa Marina continued. A resource consent application for development of around 230 new berths to the north-west of the existing marina is due for lodgement early in 2018.

# DEVELOPMENT AND PLANNING

**Port Marlborough has a clear strategy for targeted capital investment that responds to customer requirements and market opportunities.**

This year's major development has been expansion of the Waimahara berth ahead of the maiden visit to Picton by *Ovation of the Seas* on Christmas Eve 2016. Although the Waimahara Berth had sufficient depth, horizontal dimensions of the berth were dredged to meet the greater length and beam requirements of this very substantial vessel. Mooring bollard capacity was increased from 100 Tonnes to 300 Tonnes at each end of the berth. This significant investment in infrastructure continues Picton's development as a notable port on the New Zealand cruise itinerary.

Other capital investment around the Port included minor dredging of the Waitohi West berth and construction of a 50-metre finger jetty at Westshore for the barge and smaller commercial vessel fleet. In Havelock, scarcity of available land continues to lift market rentals with the last available sites on the reclamation now under negotiation for lease. Several development projects were either underway or in negotiation as at balance date, most with project completion timed for the 2018 year.

Port Marlborough continued to engage with Marlborough District Council's process for development of the Marlborough Environment Plan, making further submissions prior to Christmas. Participation in the hearings process will require a strong focus in the coming year.

Whilst still on the horizon, planning for redevelopment of ferry infrastructure has been delayed following the Kaikoura earthquake. Resource consent application for a 230-berth North West Waikawa Marina Extension is due for lodgement and consenting processes should be complete by the end of the 2018 financial year.

# COMMUNITY & ENVIRONMENT

**We are fortunate to operate in the special environment and communities of the Marlborough Sounds. We continue to take a responsible, proactive approach to environmental management through our day to day operations, development planning, and wider community partnerships.**


Port Marlborough supports community conservation initiatives and we are humbled by what is being achieved by these voluntary groups. Alongside our Foundation Partner role with Kaipupu Wildlife Sanctuary, we provide in-kind sponsorship to Picton Dawn Chorus, supporting their ambition to make Picton New Zealand's first predator-free town.

We are honoured to sponsor the new Marine category of the Cawthron Marlborough Environment Awards. This category, presented to Sanfords as the inaugural winner, celebrates marine-related businesses or community projects that are good for the environment.

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

Port Marlborough is a committed sponsor of local festivals and events including the Picton Maritime Festival, Picton Christmas Parade and the Picton New Year's Eve party and fireworks. Marlborough Sounds Marinas is long-time sponsor of the Havelock Mussel Festival, and is lead sponsor of the Marina2Marina fun run event in Picton.

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

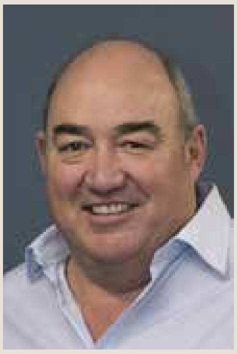
# THE BOARD OF DIRECTORS

### Ed Johnson (Chairman)

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

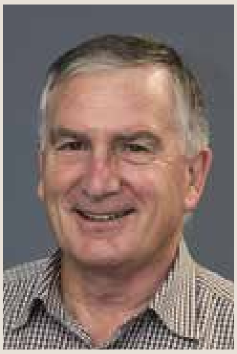
Ed Johnson was appointed to the Board in December 2007 and has been Chairman since December 2008. He is also Chairman of Goldpine Industries Ltd, Indevin Ltd, and a director of Port Otago Ltd and ECL Group Ltd. He retired as Chairman and Chief Financial Officer of Shell New Zealand in 2002 after a number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

### Peter Drummond *MNZM, CFInstD*



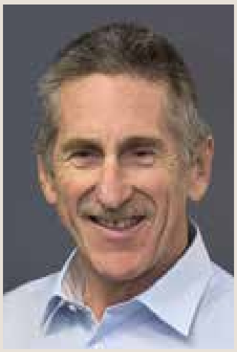
Peter Drummond is an experienced director with extensive international business management and marketing expertise. He was made a Fellow of the Institute of Directors in 1999 and an Accredited/Chartered Fellow in 2005. He has served on a wide range of community organisations. Peter is currently Chairman of Appliance Connection Ltd, Watercare Harbour Clean-Up Trust, 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 Fire Emergency New Zealand.

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



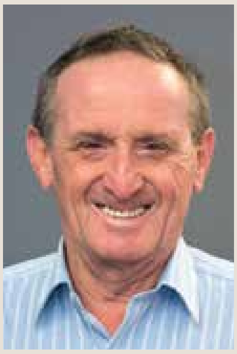
Ian Boyd was appointed to the Board in December 2015. Ian is the CEO of Ontario Teachers Pension Plan NZ Forest Investments Limited (OTPP NZ) where he has responsibility for forestry and agricultural investments in New Zealand and Australia. He has held senior executive roles across the primary sector 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. Ian has a Bachelor of Forestry Science from Canterbury University, and has attended executive programs at Stanford and Wharton University. He resides in Auckland.

### 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.

### 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, Auckland Council Investments Limited (Chair), Gough Holdings Ltd (Chair), Government Superannuation Fund (Chair) and Southern Cross Healthcare.

### 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 an active user of the Marlborough Sounds being a keen sailor, diver, and hopeful fisherman.

### Andrew Besley *MPM, BA (Hons), Dip Acc, Dip Tchg*

Andrew Besley was appointed to the Board in July 2016. Andrew is currently a project manager and management consultant. Previously Chief Executive Officer of the Marlborough District Council for 15 years, Andrew retired from Council in December 2015. Andrew has tertiary qualifications in history, teaching, accounting and management. He lives close to Blenheim.

# 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.

## 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 (Hons) MIPENZ CPEng*

Gavin joined Port Marlborough as Manager Infrastructure 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.

## Rose Prendeville

Manager Projects and Support

*BTech (I.E.), Dip.PM*

Rose initially joined Port Marlborough in 2004 and took up her current role in 2009. She has a comprehensive business background spanning production engineering and management, project management, marketing and administration, and general management primarily in the engineering and construction materials sectors. Rose is tasked with providing specialist project management leadership and experience across the business; and leadership of key strategic projects and resource management planning.

# 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 2017.

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 2017 and the results of the Group's operations and cash flows for the year ended on that date.

## Auditors

Mike Hoshek for Deloitte Limited, 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 2017.

## 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 | |
|---|---|---|
| | 2017 | 2016 |
| $100,000 – 110,000 | 4 | 3 |
| $110,000 – 120,000 | 2 | 2 |
| $120,000 – 130,000 | 1 | 1 |
| $140,000 – 150,000 | - | 2 |
| $150,000 – 160,000 | 1 | 1 |
| $160,000 – 170,000 | 1 | - |
| $180,000 – 190,000 | 1 | 1 |
| $200,000 – 210,000 | 1 | 1 |
| $210,000 – 220,000 | 1 | - |
| $360,000 – 370,000 | - | 1 |
| $370,000 – 380,000 | 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 2017 was: E G Johnson $60,000. Messrs A R Besley, I R Boyd, P S Drummond, M F Fletcher, M B J Kerr and K B Taylor $30,000 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

**Andrew Besley**

- Black Dog Vineyards Ltd, Director/Shareholder
- Redwood Developments Ltd, Shareholder

**Ian Boyd**

- OTPP NZ Forest Investments Limited, CEO
- Aroona Holdings Limited (and subsidiaries), Chairman/Director
- Te Arawa Group Holdings Limited, Director

**Peter Drummond**

- Appliance Connexion Ltd, Chairman
- Fish Pot New Zealand, Chairman
- NARTA Australia Pty Ltd, Director
- NARTA NZ Ltd, Director
- Ngati Awa, Director
- Fire and Emergency New Zealand, Director
- Watercare Harbour Clean Up Trust, Chairman

**Martin Fletcher**

- Marlborough District Council, Chief Financial Officer
- Calmar Cherries Ltd, Director/Shareholder

**Matt Kerr**

- Kakapo Bay Forests (2004) Ltd, Director
- Saints Investments Limited, Director
- WK Advisors and Accountants Ltd, Director

**Keith Taylor**

- Auckland Council Investments Limited, Chairman
- Butlands Management Services Limited, Chairman
- Southern Cross Medical Care Society, Healthcare Trust and Hospitals Limited, Director/Trustee
- Reserve Bank of New Zealand, Director
- Gough Holdings Limited, Chairman

## 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 Group as at 30 June 2017, and its financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of 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 Group 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 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 seven non-executive Directors: a Chairman and six 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 24 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 seven non-executive Directors: a Chairman and six 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 2017.

**Approval by Directors**

The Directors are pleased to present the Financial Statements of Port Marlborough New Zealand Limited for the year ended 30 June 2017 on pages 31 to 51.

## Authorisation for Issue

The Board of Directors authorised the issue of these Financial Statements on 22 September 2017.

**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 2017**

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

## Opinion

We have audited the financial statements of the Group on pages 31 to 51, that comprise the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

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

- present fairly, in all material respects:
  - its financial position as at 30 June 2017; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards, Reduced Disclosure Regime.

Our audit was completed on 22 September 2017. This is the date at which our opinion is expressed.

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

## Basis for our opinion

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

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

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

## Responsibilities of the Board of Directors for the financial statements

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

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

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

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

## Responsibilities of the Auditor for the audit of the financial statements

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

**Independence**

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

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

Deloitte Limited

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

## Consolidated Income Statement

For the Financial Year Ended 30 June 2017

| | Note | Group 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| Revenue | 3.1 | 27,301 | 25,775 |
| Other income | | 96 | 73 |
| Investment property revaluation | 9 | (751) | (2,418) |
| Operations and maintenance | | (7,194) | (7,626) |
| Employee benefits expense | 22.6 | (6,239) | (6,127) |
| Depreciation, impairment and amortisation expense | 3.2 | (2,796) | (3,399) |
| Finance costs | 3.2 | (346) | (3,319) |
| Subvention payments | | (277) | (326) |
| **Profit before income tax expense** | | **9,794** | **2,633** |
| Income tax expense | 4.1 | (2,588) | (823) |
| **Profit for the year** | | **7,206** | **1,810** |

## Consolidated Statement of Comprehensive Income

For the Financial Year Ended 30 June 2017

| | Note | Group 2017 $'000 | Restated 2016 $'000 |
|---|---|---|---|
| **Profit for the year** | | **7,206** | **1,810** |
| **Other comprehensive income, net of tax** | | | |
| Items that will never be classified to profit or loss: | | | |
| (Loss)/gain on revaluation of property, plant and equipment | 8 | (1,582) | 25,066 |
| Income tax relating to revaluation of property, plant and equipment | 4.3 | 535 | (5,384) |
| **Total comprehensive income for the year, net of tax** | | **(1,047)** | **19,682** |
| **Comprehensive income attributable to members of the parent entity** | | **6,159** | **21,492** |

## Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2017

| | Note | Group 2017 $'000 | Restated 2016 $'000 |
|---|---|---|---|
| Equity at beginning of the year | | 120,949 | 101,550 |
| Total comprehensive income for the year, net of tax | | 6,159 | 21,492 |
| Dividends | 17 | (2,500) | (2,093) |
| **Balance at end of the year** | | **124,608** | **120,949** |

*Notes to the financial statements are included on pages 34 to 51.*

# Consolidated Statement of Financial Position

As of 30 June 2017

| | Notes | Group 2017 $'000 | Restated 2016 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 21.2 | 2,825 | 329 |
| Trade and other receivables | 5 | 1,709 | 2,169 |
| Inventories | 6 | 296 | 269 |
| Current tax asset | 4.2 | - | 429 |
| **Total current assets** | | **4,830** | **3,196** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 8 | 88,359 | 91,528 |
| Investment property | 9 | 77,150 | 75,017 |
| Other intangible assets | 10 | 614 | 725 |
| **Total non-current assets** | | **166,123** | **167,270** |
| **Total assets** | | **170,953** | **170,466** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 11 | 2,371 | 2,258 |
| Current tax liabilities | 4.2 | 190 | - |
| Other financial liabilities - Derivatives | 13 | - | 143 |
| **Total current liabilities** | | **2,561** | **2,401** |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings from MDC Holdings Limited | 12 | 29,500 | 31,500 |
| Deferred tax liabilities | 4.3 | 12,617 | 12,915 |
| Other financial liabilities - Derivatives | 13 | 1,667 | 2,701 |
| **Total non-current liabilities** | | **43,784** | **47,116** |
| **Total liabilities** | | **46,345** | **49,517** |
| **Net assets** | | **124,608** | **120,949** |
| **EQUITY** | | | |
| Capital and other equity instruments | 14 | 13,588 | 13,588 |
| Capital reserve | 15.1 | 2,693 | 2,693 |
| Revaluation reserve | 15.2 | 45,007 | 46,382 |
| Retained earnings | 16 | 63,320 | 58,286 |
| **Total equity** | | **124,608** | **120,949** |

*Notes to the financial statements are included on pages 34 to 51.*

# Consolidated Cash Flow Statement

For the Financial Year Ended 30 June 2017

| | Notes | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 27,924 | 25,681 |
| Interest received | | 25 | 29 |
| Payments to suppliers and employees | | (13,379) | (14,139) |
| Interest and other costs of finance paid | | (1,554) | (1,834) |
| Subvention payments | | (326) | (373) |
| Income tax paid (Net of refunds) | | (1,732) | (2,470) |
| Net cash provided by operating activities | 21.1 | 10,958 | 6,894 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | 27 | 19 |
| Payment for property, plant and equipment | | (3,362) | (4,334) |
| Payment for investment property | | (627) | (1,679) |
| Payment for intangible assets | | - | (16) |
| Net cash used in investing activities | | (3,962) | (6,010) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | (2,000) | - |
| Dividends paid | | (2,500) | (2,093) |
| Net cash used in financing activities | | (4,500) | (2,093) |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,496** | **(1,209)** |
| **Cash and cash equivalents at the beginning of the financial year** | | **329** | **1,538** |
| **Cash and cash equivalents at the end of the financial year** | 21.2 | **2,825** | **329** |

*Notes to the financial statements are included on pages 34 to 51.*

# Notes to the Financial Statements

For the Financial Year Ended 30 June, 2017

## 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 2017.

The Group consists of:

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

The 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 2017, and the comparative information presented in these Financial Statements for the year ended 30 June 2016:

### 2.1. Statement of compliance

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("FRS44 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 Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Cash Flow Statement and Consolidated Statement of 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 consolidated 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 consolidated 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)

## 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, (first reporting period being 30 June 2019)
- NZ IFRS 15 Revenue from Contracts with Customers- Effective for reporting periods beginning on or after 1 January 2018, (first reporting period being 30 June 2019)
- NZ IFRS 16 Leases- Effective for reporting periods beginning on or after 1 January 2019, (first reporting period being 30 June 2019)

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.

## 2.8. Prior year adjustments

A restatement has been made to the reported 30 June 2016 financial information, amending the reported values of Property, plant and equipment, deferred tax liabilities and revaluation reserve. The restatement was as a result of an incorrect construction date being adopted for valuation purposes. As a consequence of the error wharf infrastructure was overstated by $1.34m in the 2016 Annual Report.

Trade receivables and Trade payables were also restated for comparative purposes following a decision in the current year to treat advance invoicing of property rentals as an offset against Trade receivables as opposed to a Trade Payable.

Asset revaluation reserve and retained earnings were adjusted for prior impairment recoveries. The adjustment merely reflects a reallocation of balances within the overall Equity account.

| **Impact on Consolidated Statement of Comprehensive Income for the year ended 30 June 2016** | **Original $'000** | **Restatement Amount $'000** | **Restated Amount $'000** |
|---|---|---|---|
| Gain on revaluation of property, plant and equipment | 26,406 | (1,340) | 25,066 |
| Income tax relating to revaluation of property, plant and equipment | (5,759) | 375 | (5,384) |
| Total comprehensive income for period, net of tax | 22,457 | (965) | 21,492 |

| **Impact on Consolidated Statement of Financial Position for the year ended 30 June 2016** | **Original $'000** | **Restatement Amount $'000** | **Restated Amount $'000** |
|---|---|---|---|
| **Current assets/liabilities** | | | |
| Trade and other receivables | 2,671 | (502) | 2,169 |
| Trade and other payables | 2,760 | (502) | 2,258 |
| **Non-current assets** | | | |
| Property, plant and equipment | 92,868 | (1,340) | 91,528 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 13,290 | (375) | 12,915 |
| **Equity** | | | |
| Revaluation reserve | 48,898 | (2,516) | 46,382 |
| Retained earnings | 56,735 | 1,551 | 58,286 |

# 3. PROFIT FROM OPERATIONS

## 3.1. Revenue

| Revenue from continuing operations consisted of the following items: | **Group** **2017 $'000** | **2016 $'000** |
|---|---|---|
| Revenue from the rendering of services | 17,607 | 16,731 |
| Operating lease rental revenue: Investment properties | 9,669 | 9,015 |
| Interest revenue: Bank deposits / IRD use of money | 25 | 29 |
| | 27,301 | 25,775 |

### *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 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| **Interest costs** | | | |
| Interest on borrowings and swaps | | 1,523 | 1,807 |
| **Other finance costs** | | | |
| (Gain)/losses on derivative financial instruments | | (1,177) | 1,512 |
| **Total finance costs** | | **346** | **3,319** |
| **Depreciation, impairment and amortisation** | | | |
| Depreciation of non-current assets | 8 | 2,685 | 2,317 |
| Amortisation of non-current assets | 10 | 111 | 120 |
| Impairment of non-current assets | 8 | - | 962 |
| **Total depreciation, impairment and amortisation** | | **2,796** | **3,399** |
| **Other expenditure disclosures** | | | |
| Auditor remuneration | | | |
| Audit fees | | 68 | 66 |
| Donations and sponsorship | | 60 | 82 |
| Employer contribution to superannuation | | 259 | 257 |
| Operating lease rental properties | | 24 | 28 |
| Expenses from investment properties generating income | | 3,273 | 3,519 |

#### *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 Consolidated Statement of Financial Position classification of the related debt. During the year the Group and the Company interest rates ranged between 2.07% and 6.53% (2016: 3.34% and 6.53%).

## 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 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| **Profit before income tax expense** | | **9,794** | **2,633** |
| **Tax at current rate 28%** | | 2,742 | 738 |
| **Plus/(less) tax adjustments:** | | | |
| Non-deductible expenses | | 2 | 6 |
| Non-taxable income | | 44 | 313 |
| Group loss available for offset | | (200) | (234) |
| **Income tax expense on the Income Statement, comprising:** | | **2,588** | **823** |
| Current tax expense | | 2,351 | 1,677 |
| Deferred tax expense/(credit) | | 237 | (854) |
| | | **2,588** | **823** |

### *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 Consolidated 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 | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| **Balance at beginning of the year** | **429** | **(364)** |
| Current tax expense | (2,351) | (1,677) |
| Income tax paid (net of refunds) | 1,732 | 2,470 |
| **Balance at end of the year** | **(190)** | **429** |

### *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 Consolidated 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 2015** | **(374)** | **6,286** | **2,602** | **72** | **(201)** | **8,385** |
| Recognised in: | | | | | | |
| Profit or loss | (423) | (83) | (430) | 72 | 10 | (854) |
| Other comprehensive income (restated) | - | 5,384 | - | - | - | 5,384 |
| **Restated Balance at 30 June 2016** | **(797)** | **11,587** | **2,172** | **144** | **(191)** | **12,915** |
| Recognised in: | | | | | | |
| Profit or loss | 330 | (207) | 113 | 24 | (23) | 237 |
| Other comprehensive income | - | (535) | - | - | - | (535) |
| **Balance at 30 June 2017** | **(467)** | **10,845** | **2,285** | **168** | **(214)** | **12,617** |

### *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 Group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

Port Marlborough do not intend to sell any investment property holdings and do not have a history of doing so. On this basis deferred tax has been allocated against the underlying asset class.

## 4.4. Imputation credit account balances

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Available directly and indirectly to shareholders of the parent company, through Parent company | 11,337 | 10,049 |

## 5. TRADE AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | 2017 $'000 | Restated 2016 $'000 |
| Current | 1,309 | 2,058 |
| Past due 1-30 days | 393 | 98 |
| Past due 31-60 days | 25 | 17 |
| Past due greater than 60 days | 32 | 46 |
| | 1,759 | 2,219 |
| Less provision for doubtful debts | (50) | (50) |
| Total trade and other receivables | 1,709 | 2,169 |

### *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 Consolidated 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 | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Goods held for maintenance: **At cost** | 296 | 269 |

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 | 2017 % | 2016 % |
|---|---|---|---|---|
| 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 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 | 10,893 | (297) | - | 19,747 |
| Impairments reclassified* | (1,258) | 312 | 127 | 325 | 175 | - | (319) |
| **Restated Balance 30 June 2016** | **19,451** | **12,476** | **10,197** | **45,742** | **8,617** | **338** | **96,821** |
| Additions | - | - | - | 140 | 635 | 2,669 | 3,444 |
| Disposals | - | - | - | (67) | (82) | - | (149) |
| Transfers from capital works in progress | - | 34 | 23 | 2,408 | 243 | (2,708) | - |
| Reclassification | - | 634 | 8 | 5 | (647) | - | - |
| Net revaluation (decrement) | - | - | - | (1,582) | - | - | (1,582) |
| Transfers to investment property | - | (9) | - | (2,555) | (16) | - | (2,580) |
| **Balance 30 June 2017** | **19,451** | **13,135** | **10,228** | **44,091** | **8,750** | **299** | **95,954** |

| 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 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* | (1,258) | 312 | 127 | 325 | 175 | - | (319) |
| **Restated Balance 30 June 2016** | **174** | **1** | **-** | **533** | **4,585** | **-** | **5,293** |
| Disposals | - | - | - | (67) | (75) | - | (142) |
| Depreciation expense - Note 3.2 | - | 499 | 267 | 1,369 | 550 | - | 2,685 |
| Transfers investment property | - | - | - | (229) | (12) | - | (241) |
| **Balance 30 June 2017** | **174** | **500** | **267** | **1,606** | **5,048** | **-** | **7,595** |
| **Net Book Value** | | | | | | | |
| Restated as at 30 June 2016 | 19,277 | 12,475 | 10,197 | 45,209 | 4,032 | 338 | 91,528 |
| As at 30 June 2017 | 19,277 | 12,635 | 9,961 | 42,485 | 3,702 | 299 | 88,359 |

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

## 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 the Consolidated 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 Consolidated 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 Consolidated 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 – 20 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 | |
|---|---|---|
| | **2017 $'000** | **2016 $'000** |
| Freehold land | 5,706 | 5,706 |
| Buildings | 3,938 | 3,968 |
| Improvements | 7,580 | 7,572 |
| Wharf infrastructure | 17,981 | 18,114 |

## 9. INVESTMENT PROPERTY

| | | Group | |
|---|---|---|---|
| | **Notes** | **2017 $'000** | **2016 $'000** |
| Balance at beginning of financial year | | 75,017 | 75,756 |
| Additions from subsequent expenditure | | 654 | 1,140 |
| Capital work in progress | | (110) | 539 |
| Transfers property, plant and equipment | 8 | 2,340 | - |
| Net loss from fair value adjustments | | (751) | (2,418) |
| **Balance at end of financial year** | | **77,150** | **75,017** |

### 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 Consolidated Income Statement for the period in which they arise.

During the year, items of property, plant and equipment were reclassified from operational port land to investment property. These were revalued at the date of reclassification and the revaluation difference was included in other Comprehensive Income. At that date the asset was transferred to investment property at fair value.

## 9.2. Valuation basis

Investment properties were valued on 30 June 2017 by Crighton Anderson Property & Infrastructure Limited t/a Colliers International and 2016 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 | 2017 | 2016 |
|---|---|---|
| Picton marina | 8.00% | 6.50% |
| Waikawa marina | 8.50% | 6.85% |
| Havelock marina | 9.00% | 7.40% |

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 8.00% and 9.00%. (2016: 6.50% and 7.40%). Rates are post tax.

## 10. OTHER INTANGIBLE ASSETS

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| **Software gross carrying amount** | | |
| Balance at beginning of financial year | 1,217 | 1,201 |
| Additions | - | 16 |
| **Balance at end of financial year** | **1,217** | **1,217** |
| **Software accumulated amortisation & impairment** | | |
| Balance at beginning of financial year | 492 | 372 |
| Amortisation (i) | 111 | 120 |
| **Balance at end of financial year** | **603** | **492** |
| **Software net book value at end of financial year** | **614** | **725** |

(i) Amortisation expense is included in the line item 'depreciation, impairment and amortisation expense' in the Consolidated 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 | |
|---|---|---|
| | 2017 $'000 | Restated 2016 $'000 |
| Trade creditors | 927 | 694 |
| Property, plant and equipment | 88 | 260 |
| Employee expenses | 955 | 823 |
| Related parties | | |
| – Subvention payments | 277 | 326 |
| – Interest | 124 | 155 |
| | 2,371 | 2,258 |

### *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 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Borrowings from MDC Holdings Ltd (parent) secured – at amortised cost** | 29,500 | 31,500 |
| **Classified as:** | | |
| Current | - | - |
| Non-current | 29,500 | 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 $1,522,538 (2016: $1,803,850). Interest rates ranged between 2.07% and 6.53% (2016: 3.34% and 6.53%). 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 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Interest rate swap asset/(liability) at fair value** | | |
| **Classified as:** | | |
| Current | - | (143) |
| Non-current | (1,667) | (2,701) |
| Net interest rate swap | (1,667) | (2,844) |

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 |
|---|---|---|---|
| 4,000 | (104) | 3.930 | 1 July 2017 – 19 January 2019 |
| 7,000 | (911) | 5.210 | 1 July 2017 – 28 March 2024 |
| 5,000 | (179) | 4.150 | 1 July 2017 – 29 June 2019 |
| - | (72) | 3.770 | 29 June 2019 – 29 June 2024 (rollover) |
| 5,000 | (394) | 4.910 | 1 July 2017 – 23 February 2021 |
| - | (7) | 3.730 | 23 February 2021 – 23 February 2025 (rollover) |
| **21,000** | **(1,667)** | Balance as at 30 June 2017 | |
| **24,500** | **(2,844)** | Balance as at 30 June 2016 | |

### *Derivatives policies*

The 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 Consolidated Income Statement (refer Note 3.2).
- Are not used for speculative purposes.

## 14. CAPITAL AND OTHER EQUITY INSTRUMENTS

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| 13,587,650 fully paid ordinary shares (2016: 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 | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Balance at beginning of financial year | 2,693 | 2,693 |
| 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 | |
|---|---|---|
| | 2017 $'000 | Restated 2016 $'000 |
| Balance at beginning of financial year | 46,382 | 33,076 |
| Revaluation (decrements)/increments | (1,582) | 25,066 |
| Deferred tax (note 4.3) | 535 | (5,384) |
| Transfer retained earnings (note 16) | (328) | (6,376) |
| Balance at end of financial year | 45,007 | 46,382 |

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.

## 16. RETAINED EARNINGS

| | Group 2017 $'000 | Restated 2016 $'000 |
|---|---|---|
| Balance at beginning of financial year | 58,286 | 52,193 |
| Net profit attributable to members of the parent entity | 7,206 | 1,810 |
| Dividends paid (note 17) | (2,500) | (2,093) |
| Transfer from asset revaluation reserve (note 15.2) | 328 | 6,376 |
| Balance at end of financial year | 63,320 | 58,286 |

## 17. DIVIDENDS

| | 2017 Cents per share | 2017 TOTAL $000 | 2016 Cents per share | 2016 TOTAL $000 |
|---|---|---|---|---|
| Recognised amounts | | | | |
| Fully paid ordinary shares | 18.4 | 2,500 | 15.4 | 2,093 |

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

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

## 18. COMMITMENTS FOR EXPENDITURE

| | Group 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Capital expenditure commitments** | | |
| Property, plant and equipment | 731 | 995 |
| | 731 | 995 |

## 19. LEASES

### *19.1. The Group as Lessee*

There were no rentals payable under operating leases.

### *19.2. The Group as Lessor*

| *Non-cancellable operating lease payments* | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|
| Not longer than 1 year | 4,207 | 5,409 |
| Longer than 1 year and not longer than 5 years | 10,794 | 10,730 |
| Longer than 5 years | 9,545 | 10,812 |
| | 24,546 | 26,951 |

### *Leasing arrangements and policies*

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. Rentals income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

## 20. CONTINGENT ASSETS AND LIABILITIES

| | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|
| | - | - |

### *2017 Group and Parent Contingent assets*

There are no contingent assets (2016: Nil)

### *2017 Group and Parent Contingent liabilities*

In the normal course of business the Group is 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

| | Note | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| Profit after tax for the period | | 7,206 | 1,810 |
| Loss/(gain) on sale or disposal of non-current assets | | (20) | 6 |
| Loss on revaluation of investment property | 9 | 751 | 2,418 |
| Loss/(gain) on revaluation of derivative instruments | 3.2 | (1,177) | 1,512 |
| Depreciation, impairment and amortisation of non-current assets | 3.2 | 2,796 | 3,399 |
| Increase/(decrease) in deferred tax balances | 4.3 | 237 | (854) |
| Changes in net assets | | | |
| (Increase)/decrease in assets: | | | |
| Current receivables | | 460 | (138) |
| Current inventories | | (27) | 33 |
| Increase/(decrease) in liabilities: | | | |
| Current payables | | 113 | (499) |
| Current tax | | 619 | (793) |
| Net cash from operating activities | | 10,958 | 6,894 |

### 21.2. Cash and cash equivalents

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

| | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|
| Cash and cash equivalents | 2,825 | 329 |

#### *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 (2016: 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*** | **2017 $'000** | **2016 $'000** |
| Loan finance costs * | (1,523) | (1,805) |
| Subvention payments ** | (326) | (373) |
| Derivative gain/(losses) | 1,177 | (1,512) |
| Dividends paid | (2,500) | (2,093) |
| ***Marlborough District Council*** | | |
| Services provided | 53 | 62 |
| Harbour and navigational levies | (430) | (430) |
| Rates and other services | (795) | (752) |
| 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*** | **2017 $'000** | **2016 $'000** |
| Loan advance | (29,500) | (31,500) |
| Derivative | (1,667) | (2,844) |
| Interest | (124) | (155) |
| Subvention payment | (277) | (326) |
| ***Marlborough District Council*** | | |
| Receivables | - | - |
| 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 (2016: Nil).

### 22.4. Guarantees provided or received

Nil.

### 22.5. Directors

Mr E G Johnson is a shareholder or Director of:

Fulton Hogan Limited who undertook construction work for the year totalling $90,270 (2016: $417,165).

Goldpine Group Ltd who provided fencing materials during the year totalling $3,548 (2016: $3,513). $ Nil (2016: $3,305) was payable to Goldpine Group Ltd at 30 June.

ECL Group Ltd who provided fuel equipment and servicing during the year totalling $14,007 (2016: $42,453). $455 (2016: Nil) was payable to ECL Group at 30 June.

Mr KB Taylor is a Director of:

Southern Cross Medical Care Society, whom the company paid $70,699 for employee health insurance (2016: $58,614).

Gough Group Ltd who provided machinery services during the year totalling $4,214 (2016: Nil).

Mr Drummond was a Director of Watercare Services Ltd, whom the Company paid $13,106 (2016: $12,098) for TSP and deposited dust monitoring. $Nil (2016: $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 | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Employee benefits | 1,091 | 1,063 |
| Directors fees | 240 | 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 (2016: Nil).

# COMPANY DIRECTORY

**Board of Directors:**

| | | |
|---|---|---|
| Edwin G Johnson | BA (Hons) Finance and Accounting<br>MBA (Hons), CFInstD | Chairman |
| Andrew R Besley | MPM, BA (Hons), Dip Acc, Dip Tchg. | |
| Ian R Boyd | B.For.Sc., CMInstD, MNZIF | |
| Peter S Drummond | MNZM, CFInstD | |
| Martin F Fletcher | CA, MInstD | |
| Mathew B J Kerr | B.B.S. MInstD, CA, | |
| Keith B Taylor | BSc, BCA, FIA, CFInstD, ONZM | |

**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 |

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| | |
|---|---|
| **Auditor** | Mike Hoshek for Deloitte Limited, on behalf of the Office of the Auditor General |
| **Legal Advisor** | Radich Law |
| **Banker** | Bank of New Zealand |

*Port Marlborough New Zealand Limited would like to thank the following photographers for their contribution:*

*Dianna Robjohns: Cover, Pages 4-5, 6-7, 8-9, 10-11, 14-15,16-17*
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