ANNUAL REPORT 2012
PORT OF NAPIER LIMITED

THE DIFFERENCE BETWEEN GOOD AND GREAT IS A MATTER OF DEGREES. BY EMPLOYING BETTER PEOPLE AND PROVIDING BETTER ANSWERS, NAPIER HAS FIRMLY ESTABLISHED ITSELF AS THE LEADING PORT IN CENTRAL NEW ZEALAND.

Situated in the heart of the highly productive Hawke's Bay region, conveniently close to New Zealand's main East Coast international shipping lane, Napier Port is the leading port in central New Zealand.

A full range of worldwide shipping services is provided, including a number of weekly container services, complemented by excellent domestic transport systems.

Napier Port provides facilities to efficiently handle all forms of shipping, 24-hours a day, seven days a week. Our Container Terminal handles a wide variety of cargo with an emphasis on refrigerated products. Bulk Cargo facilities are available to handle all manner of forestry products (timber, woodpulp, woodpellets, logs and woodchips) fertiliser, oil products, bulk liquids, cement and vehicles.

To ensure Napier Port's customers benefit from superior solutions and outcomes, all Port staff are invited to challenge the status quo to find better answers. This maintains and enhances the Port's reputation for operational flexibility with a "can do" attitude.

Through better people and better answers, Napier Port will continue to grow and enhance its competitive position.

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FROM THE CHAIRMAN AND CHIEF EXECUTIVE

OVERVIEW

Napier Port has cemented its place as the key gateway port in Central New Zealand. The continued growth in both tonnage and containers to record levels reflects strong customer support and presents a platform to confidently plan further infrastructural development. The pleasing profitability was achieved during a year in which significant cost increases were incurred, most notably in insurance and energy.

A highlight has been the efforts of all staff and management to significantly improve safety, and in so doing reducing lost time injuries (LTIs). The Port's previous record was 289 days without an LTI; this now stands at 363 days as of 30 November 2012. Progress in all safety matters is extremely satisfying as we strive to achieve a Zero Harm workplace for our staff and all those working within the Port footprint. Safety expectations and awareness have become an integral part of our business success as are learning opportunities from our continuous improvement focus.

As we convert our growth aspirations into reality, Napier Port's national significance continues to increase. While there are a number of factors that contribute to our standing, ultimately it is the degree by which our customers, suppliers and staff consistently work together to achieve superior service outcomes that differentiates Napier Port.

FINANCIAL

Net Profit After Tax for the year ended 30 September 2012 was $11.080 million, an increase of 2% on last year's $10.864 million. This builds on last year's result and reflects strenuous efforts to manage the available land footprint and focus on core service and productivity levels.

Expenses include a one-off, non-cash cost of $919,000 following the demolition of a 40 year old storage shed. The Port is replacing this shed to provide increased capacity for a new customer.

The profit increase was achieved from revenue of $60.3 million, up 11% on last year. Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) increased by 4% to $25.4 million. The operating surplus after tax on the closing shareholders' funds was a healthy 8.1%.

The Port re-valued its sea defence assets during the year. As a result of this revaluation, shareholders' funds increased by $62 million to over $169 million. This increased value is supported by a Deloitte business valuation undertaken during the year.

Debt decreased by 7.6% to $51 million after paying dividends of $5.9 million and investing $9.5 million in capital expenditure. The Port renewed its $80 million debt facility with its bankers through to October 2014. The Port's net debt, to net debt plus equity ratio, at 27.3%, places it in a strong position to continue investing in additional service capability and improved productivity for our customers.

The first of these investments are two new twin-lift Gottwald mobile harbour cranes to provide additional container growth capability. The order for these cranes was placed after balance date, with commissioning due later in the 2012/13 financial year. These cranes will also provide increased service capabilities in terms of outreach as vessels up to 16 TEU wide are envisaged in the years ahead.

CARGO THROUGHPUT

Despite difficult conditions, the high New Zealand dollar and challenging on-going market conditions for many exporters and industries, the Port achieved a new record tonnage of 3,713,057 tonnes. Included in this achievement, the Port also handled 204,065 TEU containers, an improvement of 8.5% on last year. This included a new monthly container record volume of 26,793 TEUs in March, highlighting the available capacity in the terminal footprint at other times of the year. Recent industry statistics show Napier as the fourth largest container port in New Zealand behind Auckland, Tauranga and Lyttelton and the second largest export by tonnage (volume) port in the North Island. These are important milestones and recognise the changing dynamics and nature of container and tonnage movements in both the North and South Islands.

Those industries that have contributed to the record tonnage have done so as a result of substantial investment in capacity within their respective sectors. The widely published investment by Heinz Watties and McCains resulted in strong growth in canned goods and frozen foodstuffs.

The full effect of Pan Pac's third daily shift saw timber and woodchip volumes at record levels, whilst their additional investment in further pulp processing capabilities should see increased volumes in the year ahead.

The movement of livestock from the upper North Island to be processed locally has seen a substantial increase in meat tonnages. Likewise, the continuing strong apple and dairy volumes reflect mature sectors that consistently underpin the Port's core volumes.

Forestry continues to play an important role in the Port's future growth and development. Log volumes alone were close to one million tonnes for the year, and along with pulp, flitch, sawn timber (both green and dried), woodchips and wood pellets, overall forestry volumes make up more than 40% of all cargo tonnages. For more, see Pan Pac case study *page 10*.

The log trade continues to perform well despite a short term reduction in the region's sustainable cut. To counter this Napier has attracted volume by rail and road from Wanganui, Masterton and Taupo and rail log transport has the capacity to grow substantially.

Integration with supply chain partners, reducing supply chain costs.

Strategic alliances enable smart logistics solutions for customers.

This is an example of the increasing importance of our KiwiRail strategic alliance. More recently all KiwiRail's domestic container transfer exchanges are being handled in extended facilities at Napier Port. Likewise the commencement of a second log marshalling company on wharf now provides forestry customers with more competitive choice and new innovative handling methods to reduce supply chain costs.

Climatic conditions this year negatively affected fertiliser imports and apple production. In spite of this, 2012 apple exports were still well ahead of five and ten year averages, whilst fresh produce exports experienced a record year by some margin, with total full containerised volume growing 11%.

SHIPPING

Shipping remained relatively stable during the year despite a number of changes in services. Auckland's industrial issues resulted in Napier handling three additional vessels during our peak period. The ability of Port staff and customers to accommodate these calls was an excellent example of parties cooperating under difficult circumstances.

In terms of direct international container calls, the Port handled 264 vessels against 266 in the previous year. Some previously planned peak season extra visits didn't eventuate, and given the withdrawal of a Pacific Islands service, it was pleasing to maintain a similar number of container ship visits.

A record cruise season this year helped maintain charter vessel activity, with 268 vessels being slightly down on 273 from a year earlier. The cruise industry contributed 69 vessels with some 102,000 passengers and 43,000 crew. See our case study *page 12* of how investment in pilot training at SmartShip Australia's marine simulator has pioneered the New Zealand use in Napier Port of backing a cruise ship into harbour.

Overall 554 vessels were handled, 16 fewer than 2011. However the average cargo exchange, be it containers, logs or fertiliser continues to increase; a trend the Port believes is set to continue. Underpinning this is the move to handling larger ships across all vessel classes, not just container ships.

INFRASTRUCTURE

Projects completed during the year include fairway dredging, which has enabled Napier Port to handle vessels of 12m draft at high water. Rail capacity upgrades, and increased heavy duty paving in the log yard area have enabled increased efficiency in handling both logs and other cargoes. A key focus of the Infrastructure Master Plan has been to retain the flexibility of covered and uncovered storage capacity across all operational areas. One example of this is priority unloading of BigSave Furniture's import containers – see our case study *page 14*.

Further building development and heavy duty paving is programmed for the coming year. More inner harbour dredging will be undertaken in the first half of 2013 with the aim of achieving a 12.5m draft at high water. Strategically this will enable Napier to maintain its position in shipping rotations relative to other New Zealand ports by allowing larger deeper draft vessels – across all classes – to arrive and depart the Port with minimal delay.

A full review of the 50-year Port Infrastructure Master Plan timeline was undertaken during the Port's strategy and budgeting process. These sessions reconfirmed the previous plan with some subtle changes; reflecting revised growth forecasts and alliances with strategic partners.

The Port's close association with KiwiRail, and our commitment to invest in mutual solutions – see our log bolster case study *page 17* – has enabled the Port to better understand KiwiRail's commercial drivers. Our relationship was an integral part in securing a new out of region customer who is due to commence exporting later next year. The building of a new warehousing facility – No.9 Shed – and additional rail capacity to Napier Port are all part of the customer's whole supply chain integration.

Collectively, the spend for this past year along with the year ahead will cover:

- dredging
- rail upgrade
- new heavy duty paving
- additional heavy duty plant along with planned capex for the new No.9 Shed
- further deepening of the inner harbour
- new administration building
- two new mobile cranes
- Navis N4 Terminal Operating Software upgrade
- additional heavy duty forklifts
- more truck and trailer units.

This highlights the Port's commitment to position itself for its customers. Over the next 10 years some $130 million is earmarked for further capital and growth initiatives.

Enabling vessels across all classes to arrive and depart with minimal delay.

KEEPING FOREST EXPORT MIX MOVING

As Napier Port's biggest customer, Pan Pac's forest export products – pulp, wood chips, flitch, logs and sawn lumber – stream out of its Whirinaki plant 20km north of Napier.

"We've got to keep it moving," says Pan Pac's shipping manager Ross Dobbie, *"and the Port's been very important in providing savings and flexibility in our supply chain management to ensure that this happens."*

"We're heavy utilisers of their on-port storage facilities, and it means we can have products right next to the ships ready to go. This reduces our handling costs. It also allows us to pre-assemble all our products, and everything's checked off ready to be loaded."

Both Pan Pac, which is 100% owned by Japan's Oji Paper, and Napier Port's growth, has gone hand in hand since the original pulp exports began in 1973. The then Harbour Board built a large storage shed, and Pan Pac took an initial 30 year lease on the building for its pulp exports, with a second 30 year lease now in place. This now amounts to more than 200,000 tonnes of pulp annually being shipped out of Napier Port.

Over time, the mix of product type and their destinations has changed. Ship type also varies between charter vessels, containers and break bulk. Equally, varying the Port land available and/or required for chips, logs and sawn lumber has a flexibility that makes Ross' job somewhat easier.

"Working out what product type is going to go where and when is my headache," says Ross. *"I need to know the Port can handle what we throw at them and can work out a solution."*

One example is an increasing quantity of wood pulp being exported in containers. *"They're always working with us, both on a day to day and on a longer term contractual basis,"* he says.

This includes introducing potential new shipping companies to Napier Port. *"Those shipping companies need the reassurance that the Port can meet specific challenges,"* says Ross.

A recent example was the possibility that Pan Pac needed to increase the capacity and throughput of the new pulp being exported in containers. *"The Port worked it out, and had a night shift set up and ready to bring into action if required,"* he says.

"It's an example of the solutions they're prepared to bring to the table."

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MAKING A TURN THAT NO ONE ELSE DOES

As ship size continues to grow, there is the potential for some new very large ships to be constrained by Napier Port's inner harbour turning circle. The question was asked by Napier Port's pilots 'why not turn ships around and back them in?'

But no other port in New Zealand conducts such a manoeuvre, and it's not an exercise to be carried out lightly. Put another way, how do you complete the manoeuvre safely with limited or no opportunity to practise before engaging in the real thing?

The answer has been SmartShip Australia, a full-scale marine simulator in Brisbane, much like flight simulators widely used in the aviation industry. SmartShip has five bridges, a library of 68 ship models and port models covering ports environments in New Zealand, Australia, Thailand, USA and Europe.

Smartship had also developed a very accurate model of Napier Port says Captain Jeremy Brew – ironically a former pilot with the Hawke's Bay port.

"Not only do we have Napier's standard navigation marks such as leads, lights and buoys, but also non-standard navigation marks, like a tree in line with a house, or a lamp post in line with an office window," says Brew. *"These are common features pilots tend to use to augment their pilotage. Call them personal transit marks."*

The cruise vessel models, which include the regular Napier visitors, are hydrodynamically modelled and behave as real vessels as if operating in the real marine environment.

Napier Port pilots also carry and use a Portable Piloting Unit (PPU), a laptop based navigation program that utilises three different positioning systems to provide centimetre accuracy of the harbour, and wharves. The use of the simulator and the PPU enables the pilots to practise and become familiar with the new reversing manoeuvres.

A day or two before the ship arrives at Napier, the Captain and senior crew are directed to a private YouTube presentation. They can study the planned manoeuvre, brief the crew and get comfortable with the speeds, headings and distances involved well before arriving in the port.

"It is critical for everyone in the bridge team to be on the same page when conducting a pilotage of this nature," says Brew, *"and this clever use of technology allows for that to happen."*

"Napier Port's planning and execution of this type of manoeuvre is industry leading best practice," he says.

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SHIFT NORTH BETTER ALL ROUND

BigSave Furniture's decision to change the port through which it imports most of its products wasn't carried out lightly.

As well as the business case for shifting from Wellington to Napier Port, Big Save had to consider shifting its head office key staff and directors from its original Paraparaumu location.

However, the move was made five years ago, and the 100% family-owned, 22 store, New Zealand wide business hasn't regretted it says Big Save managing director Tom McKimm.

One of influencers on the change of port was when rumours of the possible shift occurred, Port Napier's chief executive and senior management were immediately in contact and meeting the family.

"In 30 or so years of importing through Wellington, we'd never met management or the CEO," says McKimm. *"It is one great example of how customer-friendly Napier Port is."*

These days Big Save imports up to 150 containers a month through Napier from Asia, Europe and South America.

Napier Port promised a better, more cost-effective logistics solution for handling containers that met Big Save's requirements, with the Port location providing a centralised distribution hub for all retail stores, whether to the north or south of Napier.

Unlike Auckland and Wellington ports however, Napier Port was also prepared to priority unload specific containers – usually coinciding with sales and customer orders.

The linking of Big Save's store orders, Hawke's Bay's fibre optic backbone, and Napier Port's container tracking and service means customers are guaranteed delivery to their house or the store itself within 12 hours in the North Island of the ship arriving. There's a 24 hour guarantee for the South Island.

Big Save has its distribution centre 600m from Napier Port, where containers are unloaded and returned, once empty.

"We have a rule that containers are to be cleared within six hours," McKimm says. *"For Wellington unloading, the uplift site is 20km away in Porirua, and such a turnaround is near impossible."*

"The shift we made was for the better. Napier Port is able to do things the way we wanted, their people are better, there are logistical cost savings, land is cheaper, and being in Napier is more cost-effective compared to elsewhere in the North Island. The whole thing has just been great."

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LOG BOLSTER INNOVATION FOR TRAIN WAGONS

Napier Port, observing the increased volume of radiata logs being harvested in the lower North Island, were the initiators of an idea to help KiwiRail carry more of the potential cargo by rail instead of road.

The result is a unique log bolster – a semi-permanent frame fitted to container-carrying wagons which now are part of a regular log circuit between Wanganui and Napier Port.

"Historically, from a rail point of view, it has been difficult to invest in specialist log wagons due to the nature of the commodity markets," says KiwiRail general manager sales, Leonard Sampson.

"The bolster that we've created alongside Napier Port means we're much more competitive because it is able to be easily taken on and off and at a lower level of capital investment."

A feature of logs from the lower North Island is, at 4m long, they tend to be shorter than those from further north.

Napier Port's investment in the specially designed bolsters, ticked off by KiwiRail's engineers and progressively developed and improved, now sees a 35 tonne wagon-load of logs carried by Kiwi Rail. Three lots of 4m logs (instead of the normal two) can be loaded on a single rail wagon.

This is a 10-15% payload increase on KiwiRail's traditional log wagons, with the added advantage that the bolsters can be removed and the wagon used for containers if required. The 35 tonne payload is also a 25% lift in that able to be carried by a truck – and a lessening of wear and tear on New Zealand's roads.

"The bolster was initially Napier Port's design," says Sampson. *"They were very active in pursuing this option, and it is something that now works well for our log exporting customers."*

There have also been on-going benefits for KiwiRail.

"We've subsequently started to make our own bolsters, using high tensile Swedish steel for their construction," says Sampson.

"As demand for rail transport of logs out of the lower North Island in particular grows, we expect to require more of the bolster wagons. It is probably fair to say that Napier Port created opportunities that we might not have otherwise taken advantage of."

KiwiRail chief executive Jim Quinn says its association with Napier Port has strengthened over the past three years. *"Our relationship is great, and we really enjoy working with their people."*

CULTURE DEVELOPMENT

Culture development has focused on key themes of leadership, team development and continuous improvement.

The senior team has been progressively refining the wider leadership structure, underpinning our growth goals. New leadership roles have been introduced into Terminal Planning, Cargo Logistics, Marine Operations and Port Pack, our on-port container packing and devanning facility.

A wider strategic leadership team consisting of 21 staff was formed to bring broader thinking to the Port's strategic planning and development. A leadership development programme focusing on Lean principles and tools has been progressively introduced to Operations and Technical Services team leaders and supervisors.

The focus on productivity and service saw a trial of revised rosters and teams for heavy-forklift drivers. Organising in this way ensures consistency and standardisation to both team leadership and scheduling, as well as improved fatigue management and work-life balance for drivers. Additional heavy-forklift drivers have also been recruited, providing the necessary base for continuous operations and more consistent service levels.

Investment in training of experienced heavy-forklift drivers has improved progression pathways for existing staff to become mobile harbour crane operators. Four drivers travelled to Antwerp for specialist crane simulator training and this initiative has accelerated the training programme, enabling them to become more quickly proficient.

Our continued commitment to growth is reflected by additional staff in key areas – commercial, rail operations and general cargo. This is supported by continuous improvement of recruitment practices, with the introduction of practical and psychometric testing supplementing other vigorous screening processes.

Further progress was also made in embedding a culture of continuous improvement. The Ideas for Improvement forum has been in place for over a year and has seen staff members rewarded for more than 100 new initiatives.

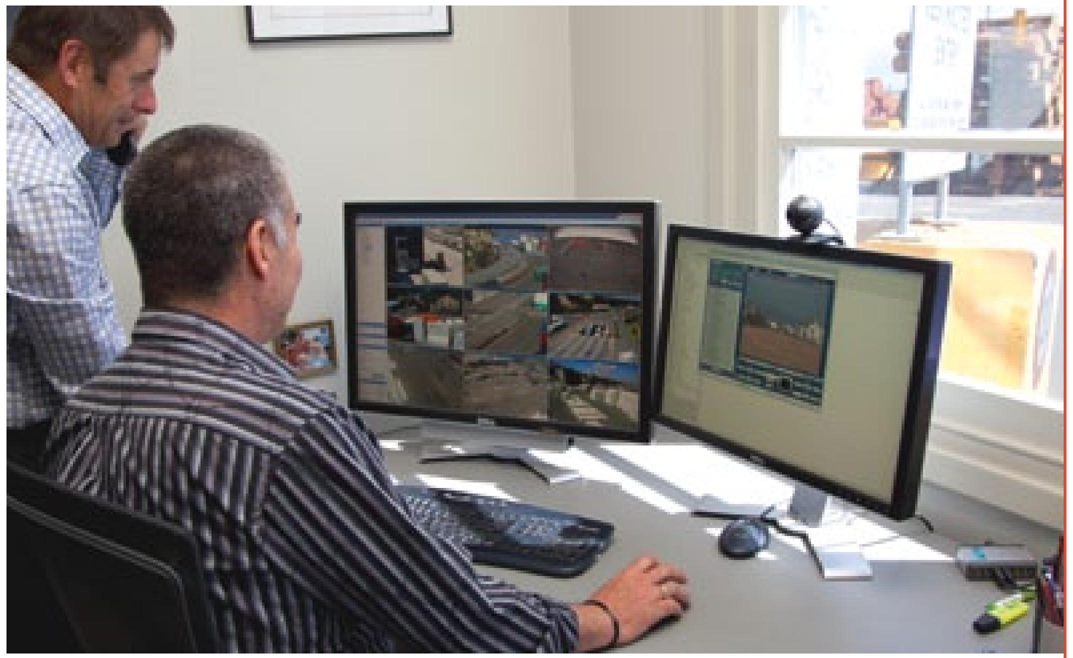
The Port's four collective employment agreements were all settled in a climate of positive employee relations. This healthy relationship also helped ensure operations were maintained without incident during a period of industrial action elsewhere in New Zealand.

INFORMATION TECHNOLOGY

Operating around the clock, non-stop IT availability is an essential given for Napier Port. Reliability is paramount to serve cargo and shipping activities and we utilise different systems on multiple platforms to supply critical services.

IT underpins virtually every facet of our operations. IT serves internal users, customers, shippers, transport operators and a range of service providers, including government border agencies.

The Port's IT foresight came to the fore in 2012. Our unique ability to seamlessly weigh every full container in-line was highlighted as global industry debate intensified over the need to know the weight of every box loaded



Foresight in IT planning delivers operating efficiencies for customers.

onto a vessel. This issue is gaining prominence as overweight containers are increasingly recognised as a contributing factor to a number of international shipping incidents.

The year was also marked by the introduction of new forklift fleet monitoring software which promises enhanced forklift fleet safety and operating efficiency.

Using virtual technology, 95% of the Port's servers were virtualised, enhancing disaster response capabilities while achieving greater flexibility for future growth and maintenance. Dashboards created using SAP's Business Objects Enterprise software now provide key real time operational information to supervisory staff.

Just prior to year end, Napier Port directors approved an upgrade from our Navis Express and SPARCS software to Navis' "N4" Terminal Operating System (TOS). Navis is recognised as the world standard for TOS and once the upgrade is completed in mid-2013, our IT and terminal operating capability will match that of most of the world's larger container terminals.

SUSTAINABILITY

The centrepiece of the Port's sustainability efforts is the Environmental Management Plan.

NOISE

Mitigating noise from Port operations, and its effect on our nearest neighbours, is our most challenging environmental requirement.

The Port Noise Liaison Committee, including representatives from Napier Port, port users, the local community and Napier City Council met twice during the financial year. Its purpose is to consider and address Port noise issues as required under the City of Napier's District Plan.

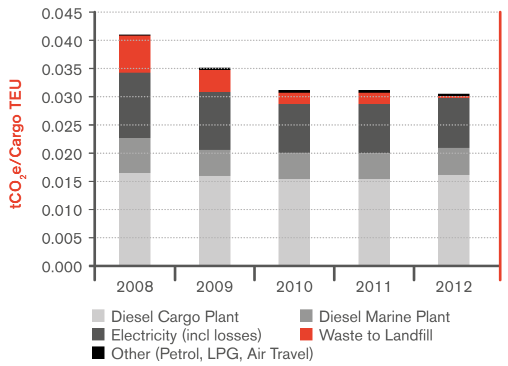
Early in 2011, real time noise monitoring equipment was installed. This equipment confirmed that the two noise complaints received during the year were well below the allowable noise limits. The Port's goal is to operate within allowable limits at all times. The sophisticated modelling and monitoring equipment has demonstrated that the noise profile of the Port has reduced in spite of higher throughput.

This is the result of various initiatives, including more effective container stacking and modifications to existing and new plant.

For example the new tug Te Mata and new container handlers have enhanced noise baffles to reduce engine noise levels. In addition, new software has been added to the Company's two front line cranes, automatically controlling the descent of containers and reducing noise levels on landing. Where feasible the Port also encourages contractors' equipment to be modified to reduce noise.

GREENHOUSE GAS EMISSIONS

The Port continues to closely monitor the resources it uses relative to cargo volumes handled. The following table reflects initiatives to minimise greenhouse gas emissions and progress over the last five years.

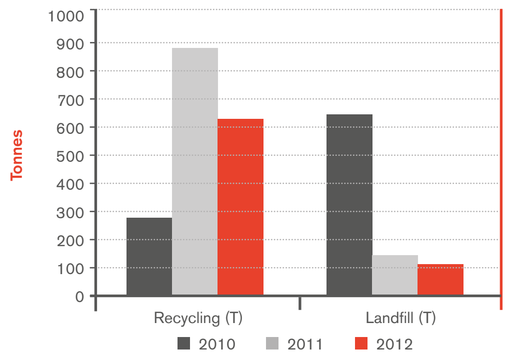


MWH Methodology in accordance with ISO 14064-1:2006

WASTE MANAGEMENT

The Port has now completed its third year of a concerted waste management programme. The 2012 results have been impressive. The waste-to-land fill was just 108 tonnes compared to 630 tonnes in 2010. This 79% reduction also saw recycling volumes increase by 230% and this was achieved at a net saving to Napier Port. The following chart highlights these achievements.

Trends in Recycling & Landfill



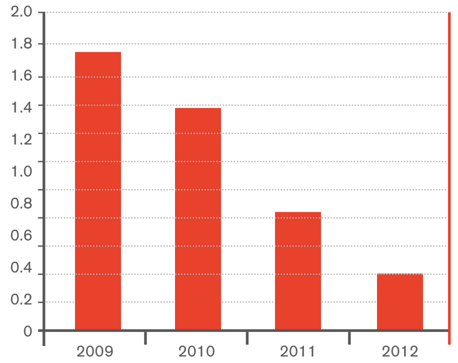
HEALTH & SAFETY

The Port continues to actively participate in the national Business Leaders' Forum focusing on Zero Harm in the Workplace. The forum, in conjunction with our on-going external audit and review process, has enabled the Port to further improve health and safety practices, and to benchmark our performance. New systems have been introduced enabling improved tracking, management and reporting. These improvements together with safety in the workplace as the top priority have enabled the Port to achieve our longest period ever since a lost time injury occurred.

In addition to the learnings gained from audits and the various forums, the Port continues to treat near misses and incidents as valuable opportunities for improvement. Our internal pool of investigators actively reviews near misses, incidents, and hazards to determine root causes, and identify where safety improvements can be made. Pre-shift safety briefings, safety tool boxes and Job Safety Analyses are now standard practise throughout the business with a broad cross section of staff contributing to their development and refinement.

Our focus on Zero Harm continues to have a significantly positive impact on our safety statistics. Year on year the accident frequency rate per 100,000 man-hours worked has progressively fallen from 1.77 in 2009, to 1.39 in 2010, 0.82 in 2011 and now 0.40 in 2012. Our comprehensive return to work programme for injured staff including non-work sport injuries, continues to have considerable success in rehabilitation and getting back to active participation at work.

Accident Frequency Rate
(per 100,000 man hours)



WELLNESS

The Company continues to successfully promote its Wellness Programme. In 2012 staff were able to participate in a smoking cessation programme, flu injections, melanoma checks, Prostate Specific Antigen (PSA) tests for male staff, and health initiatives for female staff. Four teams entered the Global Corporate (fitness) Challenge, with one team finishing first in New Zealand out of 960 entries and thirty-eighth overall worldwide (26,000 teams).

DIRECTORS

Bruce Beaton retired from the Board at the last Annual General Meeting in December 2011. Bruce made a valuable contribution to the Governance of the Port over his six year term through his expertise in the apple industry, extensive experience as an exporter, wider support and understanding of management practices and structures.

John Shaskey took up his appointment following the Annual General Meeting and brings specialist skills as an exporter, but also in supply chain and logistics areas from his extensive experience in the dairy industry.

It is important to acknowledge the work and professionalism of all the Directors. Their governance role has evolved into strong relationships with the senior management team, staff, customers and wider stakeholders. The Directors' contributions, counsel and support have been key factors in the continuing success of the business.

OUTLOOK

In last year's Annual Report, the Outlook section forecast that Napier would surpass annual container throughput of 200,000 TEUs. That objective has been met.

Along with achieving a number of other budgeted financial, volume and strategic targets, the 2012 outcome was another strong result. Often Napier Port's role, success, and national significance is not widely known or understood.

Such below the radar achievements are a timely reminder that we must constantly measure up for our customers and that success is only a matter of degrees.

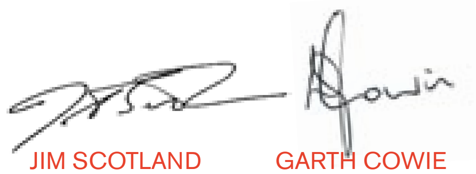
Similar challenges are presented in 2013 but the outlook remains one of overall confidence. We operate in a competitive industry and Napier is constantly being compared, and contrasted, to a number of other New Zealand ports.

The continued growth and progress of Napier Port has not occurred by accident. It is a pattern of success that has been repeated many times over the years. Our customers comment on our operational flexibility and total-logistics approach. The Port's staff have a can do attitude, employing plenty of ingenuity and innovation. Our success reflects these initiatives.

Napier Port staff challenge the status quo as part of a committed team, and reinforce the degree we go to, to ensure that customers have superior solutions and outcomes.

There has been much speculation about what the future shape of our industry will entail. The directors and management are clearly signalling that Napier will be a key gateway port now and into the future. Ultimately our staff provides Napier's competitive advantage. It is with unashamed pride and confidence we introduce Napier Port's new positioning.

BETTER PEOPLE BETTER ANSWERS



JIM SCOTLAND
Chairman

GARTH COWIE
Chief Executive

CORPORATE GOVERNANCE

PRINCIPLES

Consistent with the Port Companies Act, the Port of Napier's principal objective is to operate as a successful business. This principal objective underpins the activities of the Company.

The Directors recognise good governance is core to ensuring the creation, protection and enhancement of shareholder value.

The Board supports the governance principles embodied in the New Zealand Institute of Directors, Code of Practice for New Zealand Directors.

The Directors recognise good governance is not merely a matter of achieving legislative compliance but ensuring that exemplary standards and behaviour are sustained. This involves the establishment and maintenance of a culture at Board and senior management level and throughout the Company that ensures that the Directors and employees deal fairly with others, with transparency, protects the interest of the Shareholder and looks after the rights of stakeholders.

It is the objective of the Directors to ensure that all issues within the Company are dealt with in a manner which will reinforce or enhance the reputation of the Company and those involved.

The Board will ensure that the Company is governed within the broader framework of corporate responsibility and regulatory oversight.

ROLE OF DIRECTORS

The Directors are responsible to the Shareholder for the setting of strategies and objectives in accordance with key targets and policies adopted in the Company's annual Statement of Corporate Intent. It is their on-going responsibility to monitor management's operation of the business. They will direct management to develop appropriate structures, processes and plans necessary to achieve agreed objectives, and delegate to them the day-to-day operations in order that the plans are executed.

RISK MANAGEMENT

The Directors recognise their key responsibility of ensuring that management has appropriate systems and controls in place to regularly review and assess risks and adjust mitigation plans accordingly. The Board review the Company risk profile annually.

As part of risk management the Company has a comprehensive treasury policy that sets out procedures to minimise financial market risk.

BOARD OPERATION

Operation of the Board is governed by the Constitution of the Company, and the rules, procedures and guidelines adopted by the Board.

The Board oversees the development of annual and long term plans. It meets most months to receive reports from management on progress against such plans, and reviews and approves changes to strategies where necessary.

Where more detailed or technical supervision is necessary, the Board has delegated responsibilities to committees.

BOARD AND COMMITTEE COMPOSITION

As at 30 September 2012

BOARD

J Scotland (Chairman)
J Nichols
J Loughlin
S Reindler
P Harper
J Shaskey

AUDIT AND RISK MANAGEMENT COMMITTEE

J Nichols (Chairman)
J Loughlin
P Harper

REMUNERATION COMMITTEE

J Scotland (Chairman)
S Reindler
J Shaskey

MEETING ATTENDANCE

Meeting type	Board	Audit & Risk	Remuneration	Strategy & Planning
Meetings held	**9**	3	2	2
J Scotland	**9**	3	2	2
J Nichols	**9**	3	–	2
J Loughlin	**8**	2	–	2
S Reindler	**9**	2	–	2
P Harper	**9**	1	2	2
J Shaskey (from February 2012)	**6**	–	–	2

The Chairman and Chief Executive meet regularly with the Shareholder to report on achievement of corporate objectives and discuss matters relating to the operation of the Company.

CONFLICTS OF INTEREST

Directors and senior managers are required to identify any potential conflicts of interest they may have in dealing with the Company's affairs. Where a material conflict arises, a Director may still attend a Board meeting but may not take part in the debate or vote on any resolution in which they are interested.

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BOARD OF DIRECTORS

FROM LEFT: JIM SCOTLAND, STEVE REINDLER, PAUL HARPER, JON NICHOLS, JOHN SHASKEY AND JOHN LOUGHLIN

MANAGEMENT TEAM

FROM LEFT: ANDREW LOCKE, VIV BULL, JOHN MATHESON, BRUCE LOCHHEAD, CHRIS BAIN AND GARTH COWIE.

DIRECTORS' REPORT

The Directors take pleasure in presenting their Report and Financial Statements of the Port of Napier Limited for the year ended 30 September 2012.

PRINCIPAL ACTIVITIES

The Company's principal activities remain the commercial operation of the Port of Napier. There has been no significant change in the nature of the Company's business during the year.

FINANCIAL RESULTS

The Financial Statements attached to this report form part of and should be read in conjunction with this report. The Directors consider there are no unusual or other matters, which warrant their comment other than those discussed, and the Company's situation is clearly stated by the Financial Statements.

The surplus of Port of Napier Limited for the year, after deduction of taxation was $11.080 million (2011: $10.864 million).

DIVIDENDS

During the year the 2011 final dividend of $2.883 million and the 2012 interim dividend of $2.971 million were paid totalling $5.854 million.

DIRECTORS

In accordance with the Company's Constitution, Mr J Scotland and Mr S Reindler retire by rotation and being eligible, offer themselves for re-election.

REMUNERATION OF DIRECTORS

Remuneration paid to Directors during the year was as follows:

J Scotland (Chairman)	$68,500
S Reindler	$36,375
P Harper	$36,125
J Nichols	$39,250
J Loughlin	$36,375
J Shaskey (appointed 13 December 2011)	$27,750
B Beaton (retired 13 December 2011)	$8,375

REMUNERATION OF EMPLOYEES

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

$100,000 - 109,999	16
$110,000 - 119,999	9
$120,000 - 129,999	4
$130,000 - 139,999	3
$140,000 - 149,999	3
$150,000 - 159,999	1
$160,000 - 169,000	1
$170,000 - 179,999	3
$190,000 - 199,999	1
$200,000 - 209,999	1
$210,000 - 219,999	1
$220,000 - 229,999	1
$250,000 - 259,999	1
$270,000 - 279,999	1
$290,000 - 299,999	1
$330,000 - 339,999	1
$560,000 - 569,999	1

The adjacent annual remuneration of employees includes salary, redundancy, short and long term performance incentive payments on achievement of targets, employer's contribution to superannuation and other sundry benefits received in their capacity as employees.

DIRECTORS' INSURANCE

The Company has arranged policies of Directors' Liability Insurance, which together with a Deed of Indemnity ensures that as far as possible, Directors will not personally incur any monetary loss as a result of actions undertaken by them as Directors. The insurance does not cover liabilities arising from criminal actions.

DIRECTORS' INTERESTS

The following notices have been received from Directors disclosing their interests in other companies.

MR J A SCOTLAND

Scotland Services Ltd	Director/ Shareholder
Ahuriri Properties Ltd	Director
3 R Group Limited	Chairman/ Shareholder
Landmac Holdings Ltd	Director
The Crown Hotel (2006) Limited	Director
Hawke's Bay Airport Limited	Director
The NZ Institute for Plant & Food Research Limited	Director
Hawke's Bay Regional Investment Company Limited (appointed 24 February 2012)	Director
Seeka Kiwifruit Industries Limited (retired 24 April 2012)	Director

MR S REINDLER

Transfield Services NZ Limited	Independent Advisor
Glidepath Limited	Director (Advisory Board)
Meridian Energy Limited	Director
Institution of Professional Engineers New Zealand	Past President
Stevenson Group Limited	Director
Reindler Co Ltd	Director/ Shareholder

MR P HARPER

Lodestar Enterprises Limited	Director
Pacific Link Limited	Director
Health Benefits Limited	Director
Northgate Holdings Limited	Director
Health Alliance Limited	Director
Netlogix Limited (appointed 15 March 2012)	Director/ Shareholder

MR J P SHASKEY

Global Dairy Network Limited	Director
Global Dairy Network Holdings Limited	Director
Great Dairy Nutrition Limited	Director/ Shareholder

MR J E NICHOLS

Nichols Consulting Limited	Director/ Shareholder
Mid Central Zone Rugby League	Director
Centralines Limited	Director
Palmerston North Airport Limited (appointed 28 October 2011)	Director

MR J J LOUGHLIN

Zespri Group Ltd	Chairman
Metlifecare Limited	Director
Augusta Capital Limited (formerly Kermadec Property Fund Limited)	Director/ Shareholder
Tru-Test Corporation Limited	Chairman
Askerne Estate Winery Limited	Chairman/ Shareholder
Loughlin Viticulture and Consulting Limited	Chairman/ Shareholder
Firstlight Foods NZ Limited	Chairman
AgResearch Limited	Director

USE OF COMPANY INFORMATION

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

AUDIT FEES AND OTHER SERVICES

Under Section 19 of the Port Companies Act 1988, the Auditor-General is the Auditor of the Company. The Auditor-General has appointed Ernst & Young to undertake the audit on its behalf, pursuant to Section 15 of the Public Audit Act 2001.

Fees paid to the Auditors are disclosed in the financial statements.

PERFORMANCE INDICATORS

As required under Section 16 of the Port Companies Act 1988, performance indicators in the Statement of Corporate Intent are given below:

Comparison with Statement of Corporate Intent

	Target	Actual 2012
Net Debt to Net Debt plus Equity	20-40%	27.3%
Earnings before Interest and Tax to Interest Expense	>3 Times	5.0 Times
Earnings before Depreciation, Interest and Tax to Total Non-Current Assets	13.0%	12.8%
Operating Surplus after Tax to Shareholder Funds	8.0%	8.1%

The above actual 2012 results include the sea defence asset class valuation, which increased equity/shareholder funds by $62.007 million and non-current assets by $72.311 million.

Earnings and operating surplus exclude the net surplus on the sale of assets.

Total non-current assets and shareholder funds are the average of the opening and closing amounts and interest expense includes interest capitalised.

JIM SCOTLAND
Chairman

JOHN NICHOLS
Director

Safety expectations and continuous improvement ensure better outcomes for our customers.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2012

INCOME STATEMENT

for the year ended 30 September 2012

	NOTES	2012 $000	2011 $000
Revenue from Port Operations		60,287	54,053
Revenue Other		18	78
Operating Income	4	**60,305**	**54,131**
Employee Benefit Expenses		14,979	14,100
Maintenance Expenses		7,606	6,186
Depreciation & Amortisation Expenses	14,15	6,264	5,783
Other Operating Expenses	5	12,287	9,291
Operating Expenses		**41,136**	**35,360**
Operating Profit Before Net Financing Costs		**19,169**	**18,771**
Finance Income	6	(14)	(6)
Finance Expenses	6	3,865	3,636
Net Finance Costs		**3,851**	**3,630**
Profit Before Taxation		**15,318**	**15,141**
Income Tax Expense	7	4,238	4,405
Tax on change in building deductibility rules		–	(128)
Total Tax Expense		**4,238**	**4,277**
Profit for the period attributable to the Shareholder of the Company		**11,080**	**10,864**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2012

	NOTES	2012 $000	2011 $000
Profit after Tax attributable to the Shareholder of the Company		11,080	10,864
Other comprehensive income			
Net change in fair value of cash flow hedges transferred to the Income Statement		–	–
Asset revaluation	10	62,007	–
Net effective portion of changes in fair value of cash flow hedges		(719)	(307)
Total comprehensive income		**72,368**	**10,557**

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2012

$000	Notes	Share Capital	Revaluation Reserve	Hedging Reserve	Retained Earnings	Total Equity
BALANCE AS AT 1 OCTOBER 2011		21,000	–	(2,078)	84,036	102,958
Profit after Tax attributable to the Shareholder of the Company		–	–	–	11,080	11,080
Asset revaluation	10	–	62,007	–	–	62,007
Net effective portion of changes in fair value of cash flow hedges		–	–	(719)	–	(719)
Total comprehensive income		**–**	**62,007**	**(719)**	**11,080**	**72,368**
Dividends		–	–	–	(5,854)	(5,854)
Total transactions with the owner in their capacity as owner		**–**	**–**	**–**	**(5,854)**	**(5,854)**
Total movement in equity		**–**	**62,007**	**(719)**	**5,226**	**66,514**
BALANCE AS AT 30 SEPTEMBER 2012	**10**	**21,000**	**62,007**	**(2,797)**	**89,262**	**169,472**

$000	Notes	Share Capital	Revaluation Reserve	Hedging Reserve	Retained Earnings	Total Equity
BALANCE AS AT 1 OCTOBER 2010		21,000	–	(1,771)	80,258	99,487
Profit after Tax attributable to the Shareholder of the Company		–	–	–	10,864	10,864
Asset revaluation		–	–	–	–	–
Net effective portion of changes in fair value of cash flow hedges		–	–	(307)	–	(307)
Total comprehensive income		**–**	**–**	**(307)**	**10,864**	**10,557**
Dividends		–	–	–	(7,086)	(7,086)
Total transactions with the owner in their capacity as owner		**–**	**–**	**–**	**(7,086)**	**(7,086)**
Total movement in equity		**–**	**–**	**(307)**	**3,778**	**3,471**
BALANCE AS AT 30 SEPTEMBER 2011		**21,000**	**–**	**(2,078)**	**84,036**	**102,958**

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

STATEMENT OF FINANCIAL POSTION

as at 30 September 2012

	Notes	2012 $000	2011 $000
EQUITY			
Share Capital	10	21,000	21,000
Reserves	10	59,210	(2,078)
Retained Earnings		89,262	84,036
		169,472	**102,958**
NON-CURRENT LIABILITIES			
Loan - Westpac Banking Corporation	20	51,000	55,200
Deferred Tax Liability	7	16,689	6,104
Derivative Financial Instruments	20	2,997	1,815
Provisions for Employee Entitlements	13	289	279
		70,975	**63,398**
CURRENT LIABILITIES			
Cash and Cash Equivalents	17,20	230	199
Taxation Payable		1,641	1,389
Derivative Financial Instruments	20	1,109	1,364
Trade and Other Payables	12	5,087	6,066
		8,067	**9,018**
		248,514	**175,374**
NON-CURRENT ASSETS			
Property, Plant and Equipment	15	235,213	160,360
Intangible Assets	14	381	682
Investment Properties	16	6,285	6,285
		241,879	**167,327**
CURRENT ASSETS			
Cash and Cash Equivalents	17,20	1	1
Trade and Other Receivables	11	6,303	6,118
Inventories		331	411
Non-Current Asset Held For Sale	15	–	1,500
Derivative Financial Instruments	20	–	17
		6,635	**8,047**
		248,514	**175,374**

On behalf of the Board of Directors, who authorised the issue of these Financial Statements on 19 November 2012.

JIM SCOTLAND
Chairman

JON NICHOLS
Director

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

STATEMENT OF CASH FLOWS

for the year ended 30 September 2012

	Notes	2012 $000	2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Customers		**63,077**	**55,694**
GST Received (Net)		–	9
Interest Received		14	6
		63,091	**55,709**
Cash was applied to:			
Payments to Suppliers & Employees		(37,614)	(32,466)
Interest Paid		(3,880)	(3,501)
GST Paid (Net)		(62)	–
Taxes Paid		(3,705)	(4,076)
		(45,261)	**(40,043)**
Net Cash Flows from Operating Activities		**17,830**	**15,666**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of Assets		1,670	1,181
		1,670	**1,181**
Cash was applied to:			
Capitalised Interest		–	(740)
Purchase of Assets		(9,477)	(10,748)
		(9,477)	**(11,488)**
Net Cash Flows Used in Investing Activities		**(7,807)**	**(10,307)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from Loan		–	1,600
Cash was applied to:			
Repayment of Loans		(4,200)	–
Dividends Paid		(5,854)	(7,086)
		(10,054)	**(7,086)**
Net Cash Flows Used in Financing Activities		**(10,054)**	**(5,486)**
Total Movements in Cash Balances		**(31)**	**(127)**
Cash and Cash Equivalents at Beginning of Year			
Cash Balances		1	1
Bank Balance		(199)	(72)
		(198)	**(71)**
Cash and Cash Equivalents at End of Year			
Cash Balances		1	1
Bank Balance		(230)	(199)
	17	**(229)**	**(198)**

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

RECONCILIATION OF SURPLUS

AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

for the year ended 30 September 2012

	Notes	2012 $000	2011 $000
RECONCILIATION OF SURPLUS AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus after Taxation		**11,080**	**10,864**
Add non-cash items:			
Fair Value (Gains)/Losses		226	(264)
Depreciation and Amortisation		6,265	5,783
Deferred Tax		280	89
		6,771	**5,608**
(Deduct)/Add Other Adjustments:			
Net (Profit)/Loss on Sale of Property, Plant and Equipment		(117)	55
Write-down of Storage Shed on Demolition		919	–
(Decrease)/Increase in Non-Current Provisions		10	(14)
		812	**41**
Movements in Working Capital:			
Increase/(Decrease) in Accounts Payable		(728)	927
(Increase)/Decrease in Receivables		(184)	(1,853)
(Increase)/Decrease in Inventories		79	79
		(833)	**(847)**
Net Cash Inflow from Operating Activities		**17,830**	**15,666**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2012

1 REPORTING ENTITY

Port of Napier Limited (“the Company” or “the Port”) was incorporated in accordance with the Port Companies Act 1988 and is domiciled in New Zealand.

Port of Napier Limited is involved in providing and managing port services and cargo handling facilities.

2 BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards.

BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for sea defences, investment properties and derivative financial instruments, which are measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand Dollars (NZD) and all values are rounded to the nearest thousand dollars ($’000).

USE OF JUDGMENTS AND ESTIMATES

In the application of NZ IFRS management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have a significant effect on the amount recognised in the financial statements are as follows:

- Valuation of sea defences (note 15)
- Valuation of investment property (note 16)
- Valuation of financial instruments (note 20)
- Provisions (note 13)
- Estimation of useful lives (policy on depreciation)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

PROPERTY, PLANT AND EQUIPMENT

Tugs, cranes and cargo and administration buildings are stated at deemed cost based on valuations performed as at 30 September 2005 and subsequent additions at cost, less subsequent accumulated depreciation.

Sea defences are measured at fair value, based on periodic valuations by suitably qualified and experienced professionals. Revaluations are performed with sufficient regularity to ensure that the carrying value does not differ materially from its fair value. Differences between the valuations and the preceding carrying values are taken to the revaluation reserve. If the net balance of a revaluation reserve was to become a debit this would be charged to the Income Statement.

All other assets are accounted for at the historical cost of property, plant and equipment less accumulated depreciation. This is the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service.

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

The Company has eleven classes of property, plant and equipment:

- Port Land
- Vehicles, Plant & Equipment
- Hard Dredging
- Soft Dredging
- Site Improvements
- Wharves & Jetties
- Other Buildings
- Cranes
- Tugs
- Cargo & Administration Buildings
- Sea Defences

SUBSEQUENT COSTS

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company. All other costs are recognised in the Income Statement as an expense as incurred.

DEPRECIATION

Depreciation is provided on a straight line basis on all tangible property, plant and equipment other than freehold land and hard dredging, at rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives.

Major useful lives are:

	Years
Site Improvements	10-40
Wharves & Jetties	10-80
Vehicles, Plant and Equipment	3-25
Cargo & Administration Buildings	10-60
Other Buildings	10-25
Tugs	30
Soft Dredging	8
Cranes	20
Sea Defences	100-200

Land and hard dredging are not depreciated as they are considered to have indefinite useful lives.

IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses directly reduce the carrying amount of assets and are recognised in the Income Statement.

Impairment losses on revalued assets are taken to the revaluation reserve. If the net balance of a revaluation reserve was to become a debit this would be charged to the Income Statement.

LEASED ASSETS

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement conveys a right to use the asset.

Company as a lessee: Lease payments made under an operating lease are charged to the Income Statement on a straight line basis over the period of the lease.

Company as a lessor: Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Lease revenue received under an operating lease is recognised in the Income Statement on a straight line basis over the period of the lease.

INVESTMENT PROPERTIES

Investment properties comprise industrial land and buildings owned by the Company, which are not used in the provision of port or cargo handling services. The properties are valued at fair value without any deduction for transaction costs that may be incurred on sale or other disposal and are re-valued annually by an independent registered valuer. Depreciation is not charged on the buildings. Any gain or loss arising from a change in the fair value of the investment properties is recognised in the Income Statement.

INTANGIBLE ASSETS

Computer Software

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and it is probable they will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Major useful lives are:

	Years
Computer Software	3-10

RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, after providing against debts where collection is no longer probable. Bad debts are written off when identified.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. The cost of maintenance spares is determined on a weighted average basis. The carrying amount of inventory includes an appropriate allowance for obsolescence and deterioration.

PAYABLES

Payables are initially recorded at fair value and subsequently at amortised cost. However, due to their short term nature they are not discounted. The balance represents liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid.

EMPLOYEE ENTITLEMENTS

Employee entitlements consist of salaries, wages and performance payments, annual leave, long service leave and other benefits. Liabilities for wages, salaries and performance payments, including annual leave, expected to be settled within 12 months of the reporting date are recognised in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

The Board of Directors have approved the establishment of performance incentive schemes for staff and senior executives. The purpose of these schemes is to create additional shareholder wealth by focusing all staff on safety, business growth and improved target earnings. Payments are only made if the Board of Directors' approved non-financial and EBIT targets are achieved.

The liability for long service leave is recognised and measured at the present value of the expected future entitlements to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

TERM DEBT

On initial recognition all borrowings are recognised at the fair value of consideration received less directly attributed transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of the loan facility are amortised over the term of the loan.

INCOME TAX

The income tax expense charged to the Income Statement includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or payable to the IRD based on the taxable income for the current period. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets or liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

OTHER TAXES

Revenue, expenses, assets and liabilities are recognised net of the amount of GST, except receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the IRD.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

CASH FLOW STATEMENT

The following definitions have been used for the preparation of the Cash Flow Statement:

- Cash means cash on deposit with banks, on call borrowing and bank overdraft;
- Investing activities comprise the purchase and sale of property, plant and equipment, investment properties and investments;
- Financing activities comprise the change in equity and debt capital structure of the Company and the payment of dividends; and
- Operating activities include all transactions and events that are not investing or financing activities.

REVENUE

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental revenue is accounted for on a straight line basis over the period of the lease term.

PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required. Provisions are measured at the present value or management's best estimate of the amount required to settle the obligation.

DIVIDENDS

Provision is made for dividends only where they have been approved by the Board of Directors, but are unpaid at balance date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Where the Company determines it will hedge a transaction the Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Company also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity through the hedging reserve. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecasted transaction occurs.
The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the Income Statement.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of transaction. At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these are included in the Income Statement.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including foreign currency risk, liquidity risk, credit risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

The Company enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant, and equipment and when payment is denominated in foreign currency.

Interest rate swaps are entered into to manage interest rate exposure.

The Company has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security is not required for financial instruments subject to credit risk.

Refer also to Note 20 *Financial Instruments.*

NEW STANDARDS ADOPTED AND PRONOUNCEMENTS NOT YET ADOPTED

The following new standards are mandatory for the first time for the financial year beginning 1 October 2011:

- **NZ IAS 24 Related Parties Revised**
  Further clarifies the definition of a related party which may result in other related parties being identified. The Company has reviewed the proposed clarification and this has not resulted in further related parties being identified for the Company. The adoption of this standard has not had a material impact on the financial statements.
- **NZ IAS 1 (Revised) Presentation of Financial Statements**
  The required presentation of the Statements of Changes in Equity has been revised to reconcile movements in classes of equity on the face of this statement. This has not affected the measurement of any of the items recognised in the Statements of Financial Position or Statements of Comprehensive Income in the current year.
- **FRS 44 Harmonisation Amendments**
  This standard prescribes the New Zealand specific disclosures which are required in addition to those required under NZ IFRS. This standard amends various NZ IFRS's for the purpose of harmonising with the source IFRS's and Australian Accounting Standards. The significant amendment was the revision of imputation credit account disclosures to report imputation credits available for use in subsequent reporting periods.

No other amendments or revisions to NZ IFRS have had a material impact on these financial statements.

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not effective until after 1 October 2012. None of these are expected to have any significant effect on the financial statements of the Company, they include:

- NZ IAS 12 Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets
- NZ IFRS 7 Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures
- NZ IFRS 13 Fair Value Measurement
- NZ IFRS 9 Financial Instruments will supersede in part NZ IAS 39 and specifies how an entity should classify and measure financial assets. The standard is effective for the year ended 30 September 2016. The Company has not yet determined the potential impact of this standard.

CHANGES IN ACCOUNTING POLICIES

All policies have been applied on a consistent basis with the previous year, except as follows:

- **Sea Defences – change in accounting policy disclosure**
  The Port's sea defence assets have historically been accounted for at cost. The majority of the sea defence assets were transferred from the Harbour Board to the Port of Napier Limited upon inception of the Company on 1 October 1988 with no attributed value. The Company has determined that a more relevant approach for the recognition of these assets is to adopt a depreciated replacement cost valuation to reflect the economic value of the assets to the Company. The valuation of all sea defence assets was $76,527,000 at 30 September 2012. The key judgments and assumptions associated with the valuation are recorded in Note15 *Property, Plant and Equipment.* A deferred tax liability of $10,303,912 has been recognised.

	Notes	2012 $000	2011 $000
4 REVENUE			
Port Operations		60,287	54,053
Property Operations	16	18	78
Operating Income		**60,305**	**54,131**
5 OTHER EXPENSES			
ITEMS INCLUDED WITHIN OTHER OPERATING EXPENSES			
Auditors' Fees		93	93
Directors' Fees		253	247
Operating Leases		147	163
Bad Debts		2	7
Fair Value (Gain)/Loss on Investment Property	16	–	(494)
Net (Profit)/Loss on Sale of Property, Plant and Equipment		(117)	55
Write-down of Storage Shed on Demolition		919	–
6 FINANCIAL INCOME AND EXPENSES			
Interest Income		(14)	(6)
Finance Income		**(14)**	**(6)**
Interest Expense on borrowings		3,835	4,278
Less: Interest capitalised to property, plant and equipment	15	–	(740)
		3,835	**3,538**
Fair Value Loss on Interest Rate Swaps		30	98
Finance Expenses		**3,865**	**3,636**
Net Finance Costs		**3,851**	**3,630**
7 TAXATION			
Income Tax on the Surplus for the Year at 28.0 cents (2011: 30.0 cents)		4,289	4,542
Adjustment to Prior Year Taxation		–	3
Deferred Tax Adjustment due to tax rate changes from 30 cents to 28 cents		(64)	(10)
Deferred Tax Adjustment for removal of building tax depreciation		–	(128)
Taxation Effect of Non-deductible Items		13	(130)
Income Tax Expense		**4,238**	**4,277**
The Taxation charge is represented by:			
Current Taxation		3,839	4,010
Deferred Taxation		463	402
Deferred Tax Adjustment for removal of building tax depreciation		–	(128)
Deferred Tax Adjustment due to tax rate changes from 30 cents to 28 cents		(64)	(7)
Income Tax Expense Reported in the Income Statement		**4,238**	**4,277**

	2012 $000	2011 $000
DEFERRED TAX LIABILITY		
Balance 1 October	(6,104)	(6,015)
Adjustment to Prior Year Provision	(74)	43
Deferred Portion of Current Year Tax Expense	(463)	(402)
Amounts Charged or Credited Direct to Equity	(10,048)	132
Deferred Tax Adjustment for removal of building tax depreciation	–	128
Deferred Tax relating to changes in tax rates from 30 cents to 28 cents	–	10
Balance 30 September	**(16,689)**	**(6,104)**
Deferred Taxation is represented by:		
Accelerated Tax Depreciation	(8,003)	(7,587)
Fair Value Gains/(Losses) on Derivatives	1,150	831
Revaluation of Sea Defences	(10,304)	–
Other	468	652
	(16,689)	**(6,104)**
IMPUTATION CREDIT ACCOUNT		
Balance 30 September	**14,320**	**14,102**

8 OPERATING LEASES

Leases as a lessee

At balance date the Company had the following Operating Lease Commitments

Payable within one year	99	119
Between one and two years	63	58
Between two and five years	–	–
Over five years	–	–
	162	**177**

9 DIVIDENDS

2012 Interim Dividend Paid – 14.5 cents per share (2011: 13.46 cps)	2,971	2,827
2011 Final Dividend Paid – 13.73 cents per share (2010: 20.28 cps)	2,883	4,259
	5,854	**7,086**

10 CAPITAL AND RESERVES

SHARE CAPITAL

Issued and Paid Up

21,000,000 ordinary shares (2011 21,000,000 shares)	**21,000**	**21,000**

All Ordinary Shares have equal voting rights and share equally in dividends and surplus on winding up.

HEDGE RESERVE

The hedge reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments, related to hedged transactions that have not yet occurred.	**(2,796)**	**(2,078)**

	2012 $000	2011 $000
REVALUATION RESERVE		
The revaluation reserve relates to the revaluation of the Port sea defences.	**62,007**	–

11 TRADE AND OTHER RECEIVABLES

Trade Receivables	4,007	4,774
Accruals and Prepayments	2,296	1,344
	6,303	**6,118**
The ageing of trade receivables at reporting dates is set out below:		
Not past due	3,436	4,191
Past due 0 - 30 days	469	538
Past due 30 - 60 days	70	30
Past due > 60 days	32	15
	4,007	**4,774**

The receivables carrying value is equivalent to the current fair value given their short term nature. No receivables past due are considered impaired.

12 TRADE AND OTHER PAYABLES

Trade Accounts	1,510	1,429
Trade Accruals	803	1,623
Employee Entitlement Accruals	2,774	3,014
	5,087	**6,066**

The Accounts Payable carrying value is equivalent to the current fair value.

Employee Entitlement Accruals also include staff performance incentive and senior management long term incentive scheme payments due.

13 PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Non-Current		
Provision for Employee Entitlements	289	279
	289	**279**
Provision for Non-Current Employee Entitlements		
Balance at beginning of year	279	293
Additional provision made	55	61
Amount utilised	(45)	(75)
Balance at end of year:		
Current	–	–
Non-Current	**289**	**279**

The provision for employee entitlements relates to employee benefits such as gratuities and long service leave. The provision is affected by a number of estimates, including the expected length of service of employees, the timing of benefits being taken and also the expected increase in remuneration and inflation effects. Most of the liability is expected to be incurred over the next 2-3 years.

14 INTANGIBLE ASSETS

$000	Opening Cost	Additions	Transfer/ Disposals	Closing Cost	Opening Accum Amortisation	Current Year Amortisation	Transfer/ Disposals	Closing Accum Amortisation	Value Book
2012									
Computer Software	**3,316**	**98**	**–**	**3,414**	**2,634**	**399**	**–**	**3,033**	**381**
2011									
Computer Software	**3,140**	**246**	**(70)**	**3,316**	**2,329**	**375**	**(70)**	**2,634**	**682**

15 PROPERTY, PLANT AND EQUIPMENT

$000	Opening Cost	Revaluation/ Additions	Transfer/ Disposals	Closing Cost	Opening Accum Depreciation	Current Year Depreciation	Transfer/ Disposals	Closing Accum Depreciation	Value Book
2012									
Port Land	29,943	–	–	29,943	–	–	–	–	29,943
Sea Defences	–	72,311	4,216	76,527	–	–	–	–-	76,527
Cargo & Admin.									
Buildings	13,630	–	(1,360)	12,270	4,346	562	(441)	4,467	7,803
Tugs	24,098	–	–	24,098	1,020	396	–	1,416	22,682
Site Improvements	45,811	1,580	(4,286)	43,105	12,120	1,206	(70)	13,256	29,849
Hard Dredging	2,600	2,214	–	4,814	–	–	–	–	4,814
Soft Dredging	2,352	2,261	–	4,613	1,471	349	–	1,820	2,793
Other Buildings	3,537	–	–	3,537	1,491	118	–	1,609	1,928
Wharves & Jetties	42,453	5	–	42,458	5,294	564	–	5,858	36,600
Cranes	13,215	431	–	13,646	5,512	814	–	6,326	7,320
Vehicles, Plant									
& Equipment	26,078	2,455	(453)	28,080	12,720	1,856	(400)	14,176	13,904
Work in Progress	617	9,477	(9,044)	1,050	–	–	–	–	1,050
	204,334	**90,734**	**(10,927)**	**284,141**	**43,974**	**5,865**	**(911)**	**48,928**	**235,213**
2011									
Port Land	29,943	–	–	29,943	–	–	–	–	29,943
Sea Defences	–	–	–	–	–	–	–	–	–
Cargo & Admin.									
Buildings	13,629	1	–	13,630	3,767	579	–	4,346	9,284
Tugs	9,973	15,908	(1,783)	24,098	1,136	166	(282)	1,020	23,078
Site Improvements	41,682	4,129	–	45,811	10,965	1,155	–	12,120	33,691
Hard Dredging	2,600	–	–	2,600	–	–	–	–	2,600
Soft Dredging	2,352	–	–	2,352	1,166	305	–	1,471	881
Other Buildings	3,490	47	–	3,537	1,372	119	–	1,491	2,046
Wharves & Jetties	42,338	115	–	42,453	4,737	557	–	5,294	37,159
Cranes	12,903	312	–	13,215	4,750	762	–	5,512	7,703
Vehicles, Plant									
& Equipment	24,808	2,686	(1,416)	26,078	12,087	1,765	(1,132)	12,720	13,358
Work in Progress	12,575	11,488	(23,446)	617	–	–	–	–	617
	196,293	**34,686**	**(26,645)**	**204,334**	**39,980**	**5,408**	**(1,414)**	**43,974**	**160,360**

As at 30 September 2012 the Company chose to revalue the sea defences of the Port. The sea defences are classified as specialised assets and as such were valued on a depreciated replacement cost basis. The value increased by $72,311,000 and this valuation was undertaken by independent valuer Rob Kilgour (MTech, BE, CPEng, MIPENZ) of AECOM as sub consultant to Darroch Ltd. The significant assumptions applied in the valuation of these assets are:

Replacement unit cost was calculated taking into account:

- Port of Napier Limited's historic cost data including any recent competitively tendered construction works
- AECOM valuation data-base
- An allowance for project on costs for planning, design, contract supervision and commissioning of 10% for seawalls and rock breakwaters and 12% for concrete breakwaters.

Depreciation – The calculated remaining effective lives of assets were reviewed, taking into account:

- Condition, performance and utilisation of the assets
- Future use of the asset
- Expected changes in technology
- The NZ Infrastructure Asset Valuation Guidelines - Version 2.0.

Having considered these points, the Company has determined that components of sea defence assets will have an economic life between 100 and 200 years and in accordance with its accounting policy for such assets, they will be depreciated over their economic life. Residual values of between 20% and 50% of replacement cost have been determined based on the nature of the construction of the asset.

The Company has created a seperate asset class for sea defence assets and will revalue this class on a regular basis. The sea defences asset class would have a historical cost of $4,216,000 if they had not been revalued.

The increased property, plant and equipment carrying value as at 30 September 2012 has been assessed for impairment utilising an independent business valuation undertaken during the year. No impairment has been deemed necessary.

16 INVESTMENT PROPERTIES

	2012 $000	2011 $000
Land and Building	**6,285**	**6,285**
Balance at beginning of year	**6,285**	**6,741**
Disposals	–	(950)
Net Gain/(Loss) From Fair Value Adjustments	–	494
Balance at end of year	**6,285**	**6,285**

As at 30 September 2012 the Port's interest in investment properties was valued at $6,285,000, resulting in no movement over the last 12 months. This valuation was undertaken by Frank Spencer a registered valuer with Logan Stone Limited using the fair value basis under the highest and best use scenario. Mr Spencer is a member of the New Zealand Institute of Valuers.

	2012 $000	2011 $000
The following amounts have been recognised in the Income Statement:		
Rental Income	18	78
Direct operating expenses arising from investment properties that generate rental income	(17)	(68)

17 CASH AND CASH EQUIVALENTS

Cash	1	1
Bank overdraft	(230)	(199)
Reconciled to Cash Flow Statement	**(229)**	**(198)**

18 RELATED PARTY TRANSACTIONS

TRANSACTIONS

During the year the Company paid amounts to a related party. The Directors believe these transactions were on normal commercial terms.

Related Party	Nature of Transactions	Value of Transactions	
Hawke's Bay Regional Council	Dividends	5,854	7,086
	Rates & Resource Consents	18	5
	Subvention Payment	432	167

The Company was a wholly owned subsidiary of the Hawke's Bay Regional Council up until 27 June 2012 at which time it became a wholly owned subsidiary of the Hawke's Bay Regional Investment Company Limited. The amounts owing to the related party are paid in accordance with the Company's normal commercial terms of trade. No related party debts have been written off or forgiven during the year.

Certain directors of the Company are also directors of other companies with whom the Company transacts. All such transactions are on normal commercial terms.

KEY MANAGEMENT COMPENSATION

Compensation of the Directors and executives, being the key management personnel is as follows

Short term employee benefits	1,868	1,715
	1,868	**1,715**

19 CAPITAL EXPENDITURE COMMITMENTS & CONTINGENCIES

Capital Expenditure Commitments:
At balance date there were commitments in respect of contracts for capital expenditure of $823,000 (2011 $1,391,000).

Contingent Liabilities:
There were no material contingent liabilities at balance date (2011 Nil).

20 FINANCIAL INSTRUMENTS

CREDIT RISK

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

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LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash and borrowing facilities available to meet its liabilities when due, under both normal and adverse conditions. The Company's cash flow requirements and the utilisation of borrowing facilities are continuously monitored.
The following table sets out the contractual cash flows for all financial liabilities and derivatives:
Contractual Maturity Analysis

	Carrying Amount $000	Cash flows to Maturity $000	Less than 1 Year $000	1 - 2 Years $000	2 - 5 Years $000	More than 5 Years $000
2012						
Trade and other payables	1,510	1,510	1,510	–	–	–
Bank borrowings	51,000	54,938	1,969	1,969	51,000	–
Interest rate swaps	4,106	4,439	1,126	990	1,693	630
Forward exchange contracts	–	–	–	–	–	–
	56,616	**60,887**	**4,605**	**2,959**	**52,693**	**630**
2011						
Trade and other payables	1,429	1,429	1,429	–	–	–
Bank borrowings	55,200	57,331	2,131	55,200	–	–
Interest rate swaps	3,179	3,388	1,383	798	1,021	186
Forward exchange contracts	(17)	1,242	1,242	–	–	–
	59,791	**63,390**	**6,185**	**55,998**	**1,021**	**186**

MARKET RISK

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

INTEREST RATE RISK

The Company from time to time utilises interest rate caps and swaps to manage interest rate exposures for future periods. As at 30 September the notional principal amounts (including forward starting swaps), and the expiry period of the contracts, are as follows:

	2012 $000	2011 $000
Less than 1 Year	–	30,000
1 - 2 Years	5,500	–
2 - 3 Years	10,000	5,500
Greater than 3 Years	40,000	50,000
	55,500	**85,500**

Interest rate swaps are recognised in the Statement of Financial Position at their fair value, which includes any accrued interest at that date. The effective portion of the changes in the fair value of an interest rate swap is initially recognised in the hedging reserve, and subsequently transferred to the Income Statement at the point at which time the swap is settled. Any ineffective portion of an interest rate swap is recognised immediately in the Income Statement.

INTEREST RATE SENSITIVITY ANALYSIS

At reporting date, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would increase/(decrease) post tax profit or loss and other comprehensive income by the amounts shown below.

Interest Rate

	Profit or Loss		Other Comprehensive Income	
	100bp Increase	100bp Decrease	100bp Increase	100bp Decrease
	$000	$000	$000	$000
Interest Rate Swaps	109	(112)	1,833	(1,952)
30 September 2012	**109**	**(112)**	**1,833**	**(1,952)**
Interest Rate Swaps	152	(158)	1,970	(2,266)
30 September 2011	**152**	**(158)**	**1,970**	**(2,266)**

CURRENCY RISK

The Company undertakes transactions denominated in foreign currencies from time to time and exposure in foreign currencies arise resulting from these activities. It is the Company's policy to hedge foreign currency risks as they arise. The Company uses forward and spot foreign exchange contracts to manage their exposures.

Foreign exchange contracts are recognised in the Statement of Financial Position at their fair value. The effective portion of the changes in the fair value of foreign exchange contracts is initially recognised in the hedging reserve, and subsequently transferred to the Income Statement at the point at which the purchase and associated creditor are recorded. Any ineffective portion of foreign exchange contracts is recognised immediately in the Income Statement.

The summary of foreign exchange instruments outstanding at balance date and the contracted terms are as follows:

Foreign Exchange Contracts Maturity Analysis

	NZD Amount	Currency Amount	Less than 1 Year	1 - 2 Years	2 - 5 Years
	$000	$000	$000	$000	$000
2012					
AUD	–	–	–	–	–
	–				
2011					
AUD	1,242	999	999	–	–
	1,242				

Foreign Exchange Sensitivity Analysis

At reporting date, the Company did not hold any foreign exchange contracts. Foreign exchange sensitivity is intended to show what a 10% strengthening or weakening of the New Zealand dollar, with all other variables held constant, would increase/(decrease) other comprehensive income by the amounts shown below. There would be no material changes to profit and loss values.

Foreign Currency

	Profit or Loss		Other Comprehensive Income	
	10% NZD Increase	10% NZD Decrease	10% NZD Increase	10% NZD Decrease
	$000	$000	$000	$000
30 September 2012	–	–	–	–
30 September 2011	–	–	(113)	138

	2012	2011
	$000	$000
CREDIT FACILITIES		
At balance date the Company had total bank facilities of:		
Overdraft	1,000	1,000
Multi option credit facilities	80,000	80,000
Total	**81,000**	**81,000**
At balance date the Company usage of the bank facilities was:		
Overdraft	230	199
Multi option credit facilities	51,000	55,200
Total	**51,230**	**55,399**

The Company has two multi option credit facilities with Westpac, one for $20 million and the other for $60 million with both facilities expiring 1 October 2014. The facility gives the Company the option to raise money on the money market, through wholesale advances or a fixed rate advance for all or any part of the commitment expiring on a date no later than the termination date. Security is by way of a negative pledge over the assets of the Company in respect of both sale of such assets and other security interests.

FINANCIAL ASSETS AND LIABILITIES

	2012	2011
	$000	$000
Financial Assets		
Financial Assets at Fair Value - Cash flow Hedges		
Interest Rate Swaps	–	–
Forward Foreign Exchange Contracts	–	17
	–	**17**
Loans and Receivables		
Cash	1	1
Receivables	4,007	4,774
	4,008	**4,775**
Total Financial Assets	**4,008**	**4,792**
Financial Liabilities		
Financial Liabilities at Fair Value - Cash flow Hedges		
Interest Rate Swaps	–	–
Forward Foreign Exchange Contracts	4,106	3,179
	4,106	**3,179**

	2012 $000	2011 $000
Financial Liabilities at Amortised Cost		
Overdraft	230	199
Trade payables	1,510	1,429
Loan	51,000	55,200
	52,740	**56,828**
Total Financial Liabilities	**56,846**	**60,007**

The fair value of all derivatives are based on indicative market valuations provided by the Company's bankers.

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

ESTIMATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

All financial instruments recognised on the Company's Statement of Financial Position at fair value sit within Level 2.

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base, which the Company defines as total shareholders' equity, so as to maintain shareholder and banker confidence, and to sustain the future business development of the Company. The Company has established policies in capital management, including the specific requirements that interest cover is to be maintained at a minimum of three times, that the debt to debt plus equity ratio is to be maintained within a range of 20% to 40% and total committed funding to maximum debt over the next 12 months should not fall below a minimum of 110 percent.

The Company is required to comply with certain financial covenants in respect of external borrowings namely that interest cover is to be maintained at a minimum of three times, shareholders' funds as a percentage of total tangible assets must exceed 45% at all times and debt must not exceed 3.5 times Earnings before interest, tax, depreciation and amortisation (EBITDA). The Company has met all the covenants throughout the current reporting period.

21 EVENTS SUBSEQUENT TO BALANCE DATE

On 29 October 2012 the Company entered into a contract with Gottwald Port Technology GmbH for the purchase and supply of two mobile harbour cranes at a cost of $10,016,452. These cranes will be delivered to the Company in September 2013 and go into service by December 2013. The Company has put in place foreign exchange contracts to mitigate exchange rate risk. (2011 Nil)

AUDITOR'S REPORT

TO THE READERS OF PORT OF NAPIER LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2012

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

We have audited the financial statements of the Company on pages 30 to 50, that comprise the statement of financial position as at 30 September 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements of the Company on pages 30 to 50:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company's:
  - financial position as at 30 September 2012; and
  - financial performance and cash flows for the year ended on that date.

OPINION ON OTHER LEGAL REQUIREMENTS

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 19 November 2012. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

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

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company's financial position, financial performance and cash flows.

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

The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Port Companies Act 1988.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19 of the Port Companies Act 1988.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

STUART MUTCH
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

NOTES

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Ernst & Young
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Wellington 6140
on behalf of the Auditor-General

TRACTA40172


BETTER PEOPLE
BETTER ANSWERS