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Wharf refurbishment and redevelopment to accommodate increases in general cargo.

PORT OF NAPIER LIMITED ANNUAL REPORT 2013

## HIGHLIGHTS

A COMPARISON OF THE 5 YEAR RESULTS UNDERPINS SIGNIFICANT PROGRESS:

**REVENUE** 

+36.4%

From \$45.485m in 2009 to \$62.081m in 2013

**TOTAL TONNAGE** 

+37.7%

From 2.893m tonnes in 2009 to 3.986m tonnes in 2013

**CONTAINERS** 

<sup>+</sup>23.5<sup>%</sup>

From 166,934 TEUs in 2009 to 206,272 TEUs in 2013

**LOGS** 

+66.0%

From 729,493 tonnes in 2009 to 1.209 million tonnes in 2013 NET PROFIT AFTER TAX

+32.0%

From \$8.950m in 2009 to \$11.830m in 2013

TOTAL ASSETS

+65.0%

From \$159.3m in 2009 to \$263.8m in 2013

**EQUITY** 

+775%

From \$99.8m in 2009 to \$177.2m in 2013

**EBITDA** 

+44 6%

From \$18.649m in 2009 to \$26.979m in 2013

# BETTER FOR BUSINESS

#### FROM THE CHAIRMAN AND CHIEF EXECUTIVE

In 2012/13 Napier Port achieved another successful year across all sectors of its operations. The first Long Term Infrastructure Master Plan was completed in 2009, and created a blueprint for strategic developments which extends out 50 years. Five years on, it is timely to reflect on the first period of that growth pathway and our progress. Equally we can also re-evaluate Napier Port's positioning for the coming five years and beyond.

Napier Port's Infrastructure Master Plan and Strategic Plan anticipate a sequence of future development options, where cargo growth matches a timeline when physical works will occur. A feature of this year has been the value of that forward planning. We more effectively used existing resources only investing when utilisation and productivity gains couldn't accommodate the continuing growth. This is a completed circle – in other words, grow... invest...grow again, as in the degree symbol in our brand. It is a proven approach that has positioned Napier as the largest international port in central New Zealand, handling more than 10% (by weight) of New Zealand's total exports.

These results don't just happen by themselves. Careful planning, strategic analysis, rigorous business cases and investment decisions, detailed project and financial leadership along with close customer liaison and a dedicated and focussed team underpin our performance. The key development issue for ports like Napier is to be able to handle multiple vessel

and cargo types, ideally with flexible rather than purpose-built facilities. This approach provides a measure of resilience to counter changes by customer or cargo types. Capital invested in 2013 further enabled Napier Port to handle all forms of shipping and cargo and meet the current demands of exporters and importers.

However, while the Port has made major capital investments, our capability platform isn't only about physical infrastructure. It is also about our staff and the professional, performance oriented service culture - delivered every day. For many cargo types there is a competitive environment between ports and other supply chain participants. This environment requires a mind-set of continuous improvement to ensure competitive service offerings to all Napier Port customers. This in turn requires increasing commitments of capital and people to meet and exceed ever-higher performance and service standards.

The continued inclusion of Napier Port as a port of choice for all major container services, along with the re-establishment of new breakbulk services in mid-2013, is particularly satisfying. It reinforces the support from, and value of key exporters and importers from our wider catchment. That support has continued, despite an unprecedented period of drought on the East Coast and a highly volatile trading environment.

From modest beginnings, Napier Port is now established as the key container and breakbulk port in central New Zealand. This is demonstrated by the latest industry statistics (please refer to *Annual Throughput* table page 8). Napier Port's international container throughput now comfortably exceeds the combined volume of the three other ports in central New Zealand.

Despite the focus on containerised cargo, general cargo either in bulk or breakbulk form, still represents the largest proportion of total port trade. General cargo, accounts for some 60% of Napier's, (and New Zealand's for that matter), imports and exports by weight.

Napier Port is now clearly the fourth largest container terminal in New Zealand, following Auckland, Tauranga and Lyttelton. The Company's investment in infrastructure, excellent road and east-west rail connectivity, superior shipping services, a commitment to continuous improvement and "customer first" service are building blocks to support our customers' growth. Their growth is also helped by Napier's location and proximity to New Zealand's main east coast international shipping lane.

JIM SCOTLAND

Chairman of Directors

**GARTH COWIE** 

Chief Executive



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NAPIER

During the year, the Port invested \$21 million in property, plant and equipment, including two new twin lift Gottwald mobile harbour cranes, and four new container handlers to lift service capabilities and performance within the terminal. Napier Port is also investing in technology which will enable better customer service and vessel productivity, with the upgrade to a new industry standard terminal operating system (TOS), Navis SPARCS N4. "Go live" should be completed in the first quarter of the coming financial year. N4 is a key part of our future technology platform and one of the components of the Terminal Intensification Programme. It is a flexible and scalable system to support future growth that integrates into Napier Port's IT strategy and further streamlines administration processes.

This also matched investment for the general cargo trades. The Company built No. 9 Shed as a new 7,600m² warehousing and logistics centre, principally for Winstone Pulp International. Four additional pulp and sawn timber forklifts, and a number of dedicated truck and trailer units were also acquired to support this business. The forestry sector benefitted from the installation of another log trailer gantry to accommodate the growth in log volumes. This enables log transport companies to efficiently place trailers on truck decks and reduces waiting time, fuel costs and carbon footprint. Piling at 2 Wharf was refurbished along with bollard capacity upgrading to accommodate an increased number and size of general cargo and cruise vessels.

Improved crane efficiency increases exchanges/hour productivity for customers.

PORT OF NAPIER LIMITED





Overall vessel numbers rose to 605 calls, 53, or 9.6% above 2012.

Liner shipping activity improved during the financial year with 336 vessels handled, up 16% on 2012. New liner services attracted to Napier Port were CMA CGM ANL and OOCL introducing their weekly ANEX service from March, and PIL introducing additional seasonal calls during the peak export season with their CTP service. The 2014 peak season looks to be equally as busy with PIL's CTP service returning along with two new additional services – Maersk's Northern Star service, and the KIX service featuring ANL, Hanjin and APL.

Swire Shipping also introduced their North Asia Service from May. This uplifts Winstone Pulp International and Pan Pac pulp and sawn timber volumes, and also offers container options into North Asia and China as well as a number of other East Asia service calls.

The number of cruise vessels calling at Napier fell slightly, but, as the overall size of vessels increased, total passenger numbers were steady.

The drought reduced total fertiliser volumes handled through the Port with fertiliser vessel calls down 25% on 2012.

0000

VESSELS GREATER
THAN 4000 TEU IN SIZE
ISITED DURING THE YEAR

# PING Superior Port Pandles exactly the same size and

However, squash charters lifted 50% on 2012 and the Port attracted calls from AAL with their new multi-purpose bulk charters calling seven times during the second half of the year.

Increasingly larger vessels continued to be handled, with new records in a number of areas:

- maximum draft handled 11.95m
   length overall (all vessels) 311m
   (Voyager of the Seas) and
- length overall (container vessels) 294m Messologi.

The outlook is for further increases in size with bookings for a 317m cruise vessel (Celebrity Solstice) scheduled for the 2013/14 summer.

This year for the first time the Port also started handling container vessels with beams greater than 32m. Vessels with a 37m beam are now being regularly accommodated. As vessel size continues to increase, international data suggests a combination of LOA (Length Overall) and beam will ultimately see many New Zealand ports, including Napier Port and not just a hub port, needing to be capable of handling large container vessels up to 6,000 TEU.

Today Napier Port handles exactly the same size and range of container vessels as the likes of Auckland, Tauranga and Lyttelton (see International Port Visits table below). It is also strategically positioned with its current dredging programme to continue as a mid-port rotation for large container vessels transiting to and from the South Island. For some other ports, deeper draft of itself will not compensate for localised marine elements such as the speed and strength of incoming and outgoing tides. Manoeuvring restrictions around those tidal flows will continue, particularly for ever larger container vessels, and may ultimately limit shipping line flexibility. However, these are not a constraint for lines at Napier. Equally, for cruise vessels, it is not draft but overall length that will ultimately impact on ports. Within the next five years, the Port's plan anticipates cruise vessels of 320 - 350m length overall operating on the New Zealand coast. The current dredging programme will allow significantly longer cruise vessels to visit Napier. These longer vessels will be typically turned outside the Port in the open sea and then backed into a berth.

#### INTERNATIONAL PORT VISITS

EXTRACT FROM THE: MINISTRY OF TRANSPORT – FREIGHT INFORMATION GATHERING SYSTEM REPORT - JULY 2012 TO JUNE 2013

SHIP SIZE (TEU CAPACITY)	PORTS OF AUCKLANI	PORT OF TAURANGA	LYTTELTON	NAPIER PORT
3000-3499	64	63	25	40
3500-3999	121	115	61	90
4000-4499	27	34	31	33
4500-4999	5	6	6	6

56% of all container ship visits to Napier Port were made by vessels of capacity 3,000 - 5,000 TEU. Six visits were made by ships greater than 4,500 TEU.

Maximising berth capacity for new and extended services.





# FUTURE GROWTH PATHWAY

As noted earlier, after five years in operation, the 50-year Long Term Infrastructure Master Plan, was reviewed in detail during this year's budget and strategic planning process. Under this framework, revised growth projections and re-alignment of the objectives and goals were agreed for the next five and 10 years. These focus on building the core underlying capabilities to lay the foundation for further throughput growth, and for productivity improvements across the spectrum of Port operations.

By 2023 Napier Port's Container Terminal is expected to be handling in excess of 300,000 TEUs per annum and be capable of processing peak season requirements with an annual equivalence of 420,000 TEUs per annum (already approximately 325,000 TEUs). Growth will be secured from within Hawke's Bay and central New Zealand, including potential increased volumes from planned irrigation schemes.

A Terminal Intensification Plan will help achieve growth projections, the key aspects being:

- · Increased export container storage at berth-side
- Reduced running distance from stack to cranes, or trucks to stack
- Improved crane and vessel productivity provides more berth capacity for new or extended services
- · Increased rail capacity
- Plant Services workshops transferred to the terminal, directly adjacent to all critical operating plant
- Upgrading of Terminal Operating System to world recognised Navis N4
- · An additional dedicated food-grade dry store

Two new cranes are being commissioned in November 2013 as part of the quest to further improve productivity. Napier now has a fleet of four very similar twin lift capable cranes. The new cranes are already more efficient, with the net effect being greater exchanges/hour for customers. All cranes are now twin lift capable and support vessels up to 40m beam.

General cargo volumes are also predicted to rise substantially by 2023. Napier Port will need the capacity to handle four million tonnes of general cargo annually, which represents a 69% lift above current tonnages. Log volumes alone are predicted to grow by over 100% during the next 10 years.

The volume rise, however, may be greater than the available on-port land and will therefore require a mix of measures to ensure facilities can cope with growth without forsaking efficiency. More efficient land use through improved stock turn and a more frequent and diverse mix of shipping, is also forecast to assist in managing volume growth.

While some form of additional reclamation may be possible in the medium term, the master infrastructure plan anticipates a more rapid transformation by altering current on-port land use to increase general cargo storage space, especially for logs. Alterations will include:

- Relocating the Empty Container Depot to Napier's industrial area
- Intensifying the Container Terminal operating on a smaller footprint – allowing more space on the perimeter for General Cargo use
- Undertaking additional hardstand paving to further lift overall on-port log storage capacity

As tonnage and vessel numbers increase, berth access pressure will rise. It needs a response in the short term:

- A new 1B berth is currently planned; fortunately most of the work is already consented and construction is likely to commence in early 2015 (subject to final Board approval).
- Another general cargo berth (redeveloped No. 3) has also been planned within the Port's existing footprint.
   While subject to resource consent this is currently outside the 10 year planning window.

Several key points underpin Napier Port's strategic journey:

- Napier Port is located directly adjacent to New Zealand's main east coast international shipping lane.
- The largest international ships serving New Zealand are able to, and do, call into Napier due to our deep draft meeting their normal mid-port rotation needs.
- Napier Port is well connected to extensive land transport networks throughout central New Zealand, particularly the east/west corridor.
- Napier Port is a better logistics option, given the distribution of cargo being shipped, than any other central New Zealand port.
- Napier Port is nationally significant and will remain so, through a major development programme.
   More than \$150 million is being committed to plant replacement and infrastructure development over the next 10 years. This will deliver better outcomes and support the projected growth of its customers for the foreseeable future.

# INFRASTRUCTURE MASTER PLAN

# CONTAINER TERMINAL INTENSIFICATION PROJECT

- Stacking containers more densely closer to vessels to handle expected growth
- Improves vessel productivity

#### 2 HARDSTAND PAVING

- Increasing log storage capacity
- Log volumes expected to increase by more than 100% in next 10 years

#### CAPITAL DREDGING

- Infrastructure to handle larger ships
- Larger (4000TEU+) ships are expected to become more frequent callers

#### NO. 1B BERTH DEVELOPMENT

- Additional facility for general cargo ships to berth
- Catering for forecasted general cargo growth (+70% by 2023)

#### 5 PLANT MAINTENANCE FACILITY

- Relocated closer to critical operating plant
- More efficient & timely service response

#### 6 PORT PACK

- New dedicated food grade dry store
- Increased on-port storage for food exports

#### BERTH CONSTRUCTION & WHARF DEVELOPMENTS

- Accommodate increased demand for berth access
- General cargo volumes expected to lift 70% by 2023

#### NEW 'PORT CENTRAL' BUILDING

- Centralises the majority of Port staff in one building
- Increases safety by reducing movement of visitor and staff traffic from within operational areas

#### INCREASED RAIL CAPACITY

- Complements terminal intensification
- Provides a more efficient, drive-through rail facility

2012 aerial image of Port and surrounds.



## **ENVIRONMENT**

Sustainability measures apply across business operations including economic, environmental and social aspects. The Port's core environmental measures and reporting cover noise, greenhouse gas emissions and waste management.

#### **NOISE**

The real time noise monitoring equipment installed in 2011, is used in both a reactive and proactive manner. The constant monitoring of noise levels enables various operational activities to be closely managed, ensuring that it is maintained within noise agreed limits. While some complaints from nearby residents were periodically received during the year, the Company has been able to demonstrate that noise levels continue to be managed within the agreed limits of the Napier City District Plan on all occasions.

#### **GREENHOUSE GAS EMISSIONS**



# LEADERSHIP AND WORKFORCE DEVELOPMENT

Supporting growth, and employee relations, is the continued priority for the development of Napier Port's workforce and leadership base.

A cloud-based performance management system was introduced to managers and staff. The new system ties individual performance more closely with the strategic plan. A new competency model has been developed that reflects strategic priorities such as health and safety, continuous improvement and leadership and specialist skills.

After winning the Winstone Pulp International (WPI) business in May 2013, a significant workforce development programme was undertaken.

NAPI

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The Company, working jointly with the
Rail and Maritime Transport Union
developed the dedicated
night crew contractual
arrangements

necessary for a for the rail receival of WPI pulp and timber. In addition, a larger pool of casual truck and forklift drivers was recruited, using the same high standards applied to recruiting permanent staff.

Training and development, along with internal progression, has also been a major focus. Highlights include:

- Redevelopment of the Pilot Manual and individual competency plans has advanced both quality and progression for new pilots within the pilot team.
- New tug engineers have completed training on Ahuriri and Te Mata, and progress has been made on a comprehensive manual for tug engineers.
   Advanced Wartsila engine training in the Philippines has also been a feature of understanding and developing core competencies.
- Container Operations Team Leader development focused around team building and Lean principles.

THOUSAND DOLLARS SPENT ON EMPLOYEE TRAINING

**ER LIMITED ANNUAL REPORT 2013** 

# HEALTH AND SAFETY

A cumulative record 543 days without a lost time injury was achieved in May 2013. It has since accumulated to 93 days as at 30 September 2013. Endeavours to create a more open, engaged and just health and safety culture, all showed positive benefits during the year. This reflects a significant investment and focus on safety in the Port for all staff, contractors, cruise ship passengers and associated stakeholders. Our safety record was reinforced further with the ACC Workplace Safety Management Practices Audit maintaining Napier Port's tertiary accreditation.

A working group was established to continue the integrated approach to health and safety within the wider Port environment. It comprised representatives from management, the Rail and Maritime Transport Union, the New Zealand Merchant Services Guild and the Aviation and Marine Engineers Association. The working group was tasked with:

- Developing a new constitution for the Health and Safety Committee.
- · Redeveloping the Employee Participation Agreement.
- Reviewing the Drug and Alcohol Policy, which has seen agreement for random drug and alcohol testing.

Implementation of a new health and safety management system was a major step forward for handling incidents and investigations. The system brought improved accessibility, management and reporting of near misses and incidents.

During the year several high profile health and safety experts were invited to speak to managers and staff, and included:

- Nicholas Davidson QC, the family legal representative for the Pike River families.
- Dr Kathleen Callaghan, an occupational physician and human factors expert.
- Mike Cosman a member of the Independent Taskforce on Workplace Health and Safety.

A focus on traffic management issues will see implementation of new safe walkways, a reduction of private vehicles in operational areas and cycling banned in the Port. A joint exercise was undertaken with the New Zealand Police Commercial Vehicle Investigation Unit and Kiwi Rail to manage traffic compliance issues at the Container Terminal entry/exit resulting in significantly improved safety outcomes.

An open day for Port staff and their families showcased the working operation and environment, and our workers' skills. The day was a huge success with over 400 people taking the opportunity to experience the Port first-hand.



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## **DIRECTORS**

At this time of year, it is also important to recognise and thank the Directors for their support and dedication. Through their collective input, each of whom brings specialised skill sets, the governance structure and environment has been created which has allowed the Board to work with management to achieve this year's results and, perhaps more importantly, position Napier Port for a positive future.

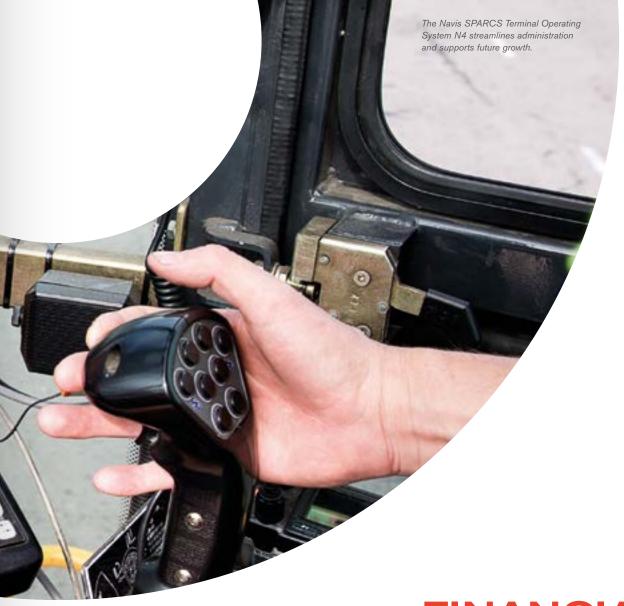
It is also appropriate to acknowledge the contribution of Steve Reindler who retires at the forthcoming Annual General Meeting. Steve has helped steer the Company through a period of substantial growth and significant infrastructure development. He has offered valuable advice and counsel on a wide range of areas such as audit and risk, health and safety as well as engineering and project management.

The term of John Loughlin expires at the forthcoming Annual General Meeting and being eligible, he offers himself for re-election.

# STAFF AND MANAGEMENT

One of this year's notable changes has been an overall lift in permanent staff numbers to 180 as at balance date, compared to 157 this time last year. The need to lift service levels, both for existing container shipping lines and for new breakbulk customers and shipping services, were the key drivers of the staff increase. Equally, the calibre of the staff employed will add to the current team of talented and dedicated individuals where service delivery is a given. The overall results achieved are a direct reflection of the "better people better answers", and "customer first" culture, that the Company has prided itself on over recent years.

We would like to express our sincere appreciation for the endeavours of management and staff during 2012/13.



# FINANCIAL

The Net Profit after Tax was a record \$11.830 million for the 30 September 2013 year. This is a 6.7% increase on the previous year's result of \$11.080 million, and was achieved from 3% increased revenues of \$62.097 million (\$60.287 million).

A combination of a different container mix and higher container volumes, increases in general cargo volumes, and improvements in productivity while aggressively managing costs saw Earnings Before Interest, Depreciation and Amortisation (EBITDA) lift to \$27 million. Net operating cash flows of \$18.093 million reflect the strong underlying earnings of the Port's core business.

Dividends of \$6.1 million were paid to our 100% shareholder, the Hawke's Bay Regional Investment Company.

Our 26% net debt to net debt plus equity ratio allows Napier Port to continue investing in additional service capability and infrastructure, and in improved productivity for our customers.





CHRIS GARTH COWIE BAIN CHIEF CHIEF BRUCE LOCHHEAD OPERATING VIV EXECUTIVE BULL OFFICER CULTURE & JOHN SERVICES MATHESON CAPABILITY MANAGER MANAGER CHIEF FINANCIAL OFFICER ANDREW LOCKE COMMERCIAL MANAGER PORT OF NAPIER LIMITED ANNUAL REPORT 2013



JOHN SHASKEY DIRECTOR

JIM SCOTLAND CHAIRMAN STEVE REINDLER DIRECTOR

|PAUL |HARPER

DIRECTOR

JOHN LOUGHLIN DIRECTOR

JON NICHOLS DIRECTOR

PORT OF NAPIER LIMITED ANNUAL REPORT 2013

## CORPORATE GOVERNANCE

## PRINCIPLES BEHIND CORPORATE GOVERANCE

The Directors are elected by the Shareholder and are responsible for the corporate governance of the Company. Corporate governance describes how a company looks after the interests of its shareholders.

The Board of Directors is committed to maintaining best practice governance policies and behaviours. Policies are reviewed against applicable standards detailed in NZX's Corporate Governance Best Practice Code. The Board's governance framework adheres to the majority of applicable standards as if the Company were a listed public company.

While recognising that this Code expresses principles and does not purport to determine any detailed course of conduct, the Directors support the need for the highest standards of behaviour and accountability.

The Board and Management are therefore committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Company's Code of Ethics sets out the manner in which Directors and employees should conduct themselves

The Board 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 to ensure that the Directors and employees deal fairly with others, with transparency that protects the interest of the Shareholder and looks after the rights of stakeholders.

## ROLE OF THE BOARD AND MANAGEMENT

The primary role of the Board is the protection and enhancement of shareholder value while respecting the rights of other stakeholders. Good corporate governance is core to ensuring the creation, protection and enhancement of shareholder value.

The Board oversees the business and affairs of the Company, establishes the strategies and financial objectives with Management and monitors the performance of Management directly and through Board Committees, monitors compliance and risk

management, and ensuring the Company has the appropriate controls and policies.

The Board has access to executive management, and key executive managers are invited to attend and participate in appropriate sessions of Board meetings.

#### **BOARD COMPOSITION**

The Company's constitution governs the composition of the Board and states that there shall be no more than nine Directors, nor less than six, and comprising of no more than two members or employees of the shareholding authority, who may hold office as Directors of the Company at the same time.

The Board currently comprises six non-executive Directors, of whom five are classified as independent. Jim Scotland is the Chairman of the Board of Directors.

#### CONFLICT OF INTEREST

Where any Napier Port Director has a conflict of interest or is otherwise interested in any transaction, that Director is required to disclose his or her conflict of interest to the Company, and thereafter will normally not be able to participate in the discussion, nor vote in relation to the relevant matter. The Company maintains a register of disclosed interests.

#### **BOARD AND COMMITTEE MEETINGS**

The following table outlines the number of scheduled meetings attended during the course of the 2013 financial year. In addition to the scheduled Board meetings, Directors have also met with management on a range of matters during the year.

Meeting type	Board	Audit & Risk	Remuneration	Strategy & Planning
Meetings held	11	3	2	1
J Scotland	11	2	2	1
J Nichols	11	3	-	1
J Loughlin	11	3	-	1
S Reindler	11	-	2	1
P Harper	11	3	-	1
J Shaskey	10	-	2	1

The Board of Directors has established two Committees for Audit & Risk and Remuneration. The Chairman appoints the Chairs of these Committees.

The Board of Directors considered the establishment of a Health and Safety Committee and agreed that safety at the Port was the responsibility of all Directors. Therefore, safety matters are a standing item on the Board's meeting agenda.

#### AUDIT & RISK MANAGEMENT COMMITTEE

The Audit & Risk Management Committee operates under a Charter, which requires it to assist the Board in fulfilling its responsibilities to discharge its financial reporting and regulatory responsibilities, ensure the ability and independence of the external auditor to carry out its statutory audit role is not impaired, ensure an effective internal audit and internal control system is maintained and ensure an appropriate framework is maintained for the management of strategic and operational risk. The Charter is approved by the Board and reviewed annually.

#### **AUDIT & RISK MANAGEMENT COMMITTEE:**

J Nichols	Chairman
J Loughlin	Director
P Harper	Director

#### REMUNERATION COMMITTEE

The Remuneration Committee operates under a Charter, which requires it to assist the Board in fulfilling its responsibilities, to appoint, remunerate and evaluate the Chief Executive and review remuneration recommendations of the Chief Executive for senior executives and make recommendations on any incentive plan for the Senior Management Group. The Charter is approved by the Board and reviewed annually.

#### **REMUNERATION COMMITTEE:**

J Scotland	Chairman
S Reindler	Director
J Shaskey	Director

#### **BOARD PERFORMANCE**

The Board has included in its Charter, a requirement to conduct a biennial review of the Board, Board Committees and individual Directors.

#### RISK MANAGEMENT

The Board and Senior Management are committed to managing risk to protect our people, the environment, financial business risks, Company assets and our reputation.

The Company has a comprehensive risk management system in place which is used to identify and manage all business risks. The system identifies the key risks facing the Company and the status of initiatives employed to reduce them. Management report to the Board six monthly, on the effectiveness of the Company's management of material risks. As part of risk management the Port also has a comprehensive Treasury Policy that sets out procedures to minimise financial market risk.

The Chief Executive and Chief Financial Officer have confirmed in writing to the Audit & Risk Management Committee that the Company's financial statements are in accordance with the accounting standards.

#### **CODE OF ETHICS**

Napier Port requires the highest standards of honesty and integrity from its Directors, Management and employees. A Code of Ethics has been developed and approved by the Board, which sets out the ethical and behavioural standards and professional conduct expected by the Company's Directors, Senior Management Team and employees.

## 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 2013.

#### PRINCIPAL ACTIVITIES

The Company's principal activities remain the commercial operation of Napier Port. 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 \$11.830 million (2012: \$11.080 million).

#### **DIVIDENDS**

During the year the 2012 final dividend of \$3.009 million and the 2013 interim dividend of \$3.072 million were paid totalling \$6.081 million.

#### **DIRECTORS**

In accordance with the Company's Constitution, Mr J Loughlin retires by rotation and being eligible, offers himself for re-election.

Mr S Reindler retires on 16 December 2013.

#### REMUNERATION OF DIRECTORS

Remuneration paid to Directors during the year was as follows:

J Scotland	(Chairman)	\$76,000
S Reindler		\$38,500
P Harper		\$38,500
J Nichols	(Chairman of Audit & Risk	
	Management Committee)	\$41,500
J Loughlin		\$38,500
J Shaskey		\$38,500

#### REMUNERATION OF EMPLOYEES

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

A... ... ...

\$100,000 - 109,999	13
\$110,000 - 119,999	15
\$120,000 - 129,999	4
\$130,000 - 139,999	1
\$150,000 - 159,999	1
\$160,000 - 169,000	2
\$170,000 - 179,999	2
\$190,000 - 199,999	2
\$200,000 - 209,999	2
\$270,000 - 279,999	1*
\$290,000 - 299,999	1*
\$370,000 - 379,999	1*
\$580,000 - 589,999	1*

<sup>\*</sup> Includes long-term incentive payments on achievement of Board of Directors' approved non-financial and EBIT targets relating to the 2012 financial year.

The 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 JA SCOTLAND

Scotland Services Ltd	Director / Shareholder	
Ahuriri Properties Ltd	Director	
3 R Group Limited	Chairman / Shareholder	
Landmac Holdings Ltd	Director	
The Crown Hotel (2006) Lim	ited Director	
Hawke's Bay Airport Limited	Director	
The NZ Institute for Plant & F	ood	
Research Limited (retired Ju	une 2013) Director	
Hawke's Bay Regional Invest	ment	
Company Limited	Director	
MD C DEINIDI ED		

#### MR S REINDLER

Independent Advisor
Advisory Board
Director
Director
Director / Shareholder
Director

#### 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	Director / Shareholder

#### MR JP SHASKEY

Global Dairy Network Limited		Director
Global Dairy Network Holdings	Limited	Director
Great Dairy Nutrition Limited	Director / Sh	nareholder
Bowrock Properties Limited	Director / Sh	nareholder

#### MR JE NICHOLS

Nichols Consulting Limited	Director / Shareholder
Mid Central Zone Rugby Leagu	ue Director
Centralines Limited	Director
Palmerston North Airport Limite	ed Director

#### MR JJ LOUGHLIN

AgResearch Limited

1711 ( 0)	o Loodii iLii v	
Zespi	ri Group Ltd	
(reti	ired April 2013)	Chairman
Metlif	ecare Limited	
(reti	ired October 2013)	Director
Augu	sta Capital Limited	Director / Shareholder
Tru-Te	est Corporation Limited	Chairman / Shareholder
Asker	ne Estate	
Win	nery Limited	Chairman / Shareholder
Lough	nlin Viticulture	
and	Consulting Limited	Chairman / Shareholder
Firstli	ght Foods NZ Limited	Chairman
*********		

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 2013
Net Debt to Net Debt		
plus Equity	20-40%	26%
Earnings before Interest		
and Tax to Interest Expense	>3 Times	5.8 Times
Earnings before Depreciation,		
Interest and Tax to Total		
Non-Current Assets	13.0%	10.8%
Operating Surplus after Tax		
to Shareholder Funds	8.0%	6.8%

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

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

JIM SCOTLAND

JOHN NICHOLS

Chairman

Director



# **INCOME STATEMENT**

		2013	2012
	Notes	\$000	\$000
Revenue from Port Operations		62,081	60,287
Revenue Other		16	18
Operating Income	4	62,097	60,305
Employee Benefit Expenses		15,968	14,979
Maintenance Expenses		7,336	7,606
Depreciation & Amortisation Expenses	14,15	7,267	6,264
Other Operating Expenses	5	11,815	12,287
Operating Expenses		42,386	41,136
Operating Profit Before Net Financing Costs		19,711	19,169
Finance Income	6	(1)	(14)
Finance Expenses	6	3,401	3,865
Net Finance Costs		3,400	3,851
Profit Before Taxation		16,311	15,318
Income Tax Expense	7	4,481	4,238
Total Tax Expense		4,481	4,238
Profit for the period attributable to the Shareholder of the	ne Company	11,830	11,080

# STATEMENT OF COMPREHENSIVE **INCOME**

FOR THE YEAR ENDED 30 SEPTEMBER 2013

Not	tes	2013 \$000	2012 \$000
Profit after Tax attributable to the Shareholder of the Company		11,830	11,080
Other comprehensive income			
Asset revaluation	10	_	62,008
Net effective portion of changes in fair value of cashflow hedges		2,038	(719)
Total comprehensive income		13,868	72,369

# STATEMENT OF CHANGES IN EQUITY

\$000	Notes	Share	Revaluation	Hedging	Retained	Total
****		Capital	Reserve	Reserve	Earnings	Equity
BALANCE AS AT 1 OCTOBER 2012	•••••	21,000	62,008	(2,797)		169,472
Profit after Tax attributable		,	,	. ,	,	,
to the Shareholder of the Company		_	_	_	11,830	11,830
Net effective portion of changes						
in fair value of cashflow hedges		_	_	2,038	_	2,038
Total comprehensive income		_	_	2,038	11,830	13,868
Dividends		_	_	_	(6,081)	(6,081)
Total transactions with the Owner			•••••			
in their capacity as owner		_	_	_	(6,081)	(6,081)
Total movement in equity				2,038	5.749	7.787
BALANCE AS AT 30 SEPTEMBER 2013	10	21,000	62,008	(759)	95,010	177,259
\$000	Notes	Share	Revaluation	Hedging	Retained	Total
		Capital	Reserve	Reserve	Earnings	Equity
BALANCE AS AT 1 OCTOBER 2011	•••••	21,000	_	(2,078)	84,035	102,957
Profit after Tax attributable						
to the Shareholder of the Company		_	_	_	11,080	11,080
Asset revaluation		_	62,008	_	_	62,008
Net effective portion of changes						
in fair value of cashflow hedges	• • • • • • • • • • • • • • • • • • • •	_	_	(719)	-	(719)
Total comprehensive income		-	62,008	(719)	11,080	72,369
Dividends		_	_	_	(5,854)	(5,854)
Total transactions with owners	•••••		***************************************	••••••••	•••••	••••••
in their capacity as owners		_	_		(5,854)	(5,854)
Total movement in equity		-	62,008	(719)	5,226	66,515
BALANCE AS AT 30 SEPTEMBER 2012		21,000	62,008	(2,797)	89,261	169,472

# STATEMENT OF FINANCIAL POSITION

		2013	2012
	Notes	\$000	\$000
EQUITY			
Share Capital	10	21,000	21,000
Reserves	10	61,249	59,210
Retained Earnings		95,010	89,262
		177,259	169,472
NON-CURRENT LIABILITIES			
Loan - Westpac Banking Corporation	20	60,000	51,000
Deferred Tax Liability	7	17,443	16,689
Derivative Financial Instruments	20	759	2,997
Provisions for Employee Entitlements	13	311	289
Trovidiono for Employee Emilionionio		78,513	
		70,513	70,975
CURRENT LIABILITIES			
Cash and Cash Equivalents	17,20	105	230
Taxation Payable	,=0	1,753	1,641
Derivative Financial Instruments	20	984	1,109
Trade and Other Payables	12	5,233	5,087
		8,075	8,067
		263,847	248,514
NON OURRENT AGGETS			
NON-CURRENT ASSETS	4.5	0.40.000	005.010
Property, Plant and Equipment Intangible Assets	15 14	248,938 276	235,213 381
Derivative Financial Instruments	20	578	301
Investment Properties	16	6,660	6,285
invocation in reportion			
		256,452	241,879
CURRENT ASSETS			
Cash and Cash Equivalents	17,20	1	1
Trade and Other Receivables	11	7,099	6,303
Inventories		295	331
		7,395	6,635
		263,847	248,514

On behalf of the Board of Directors, who authorised the issue of these Financial Statements on 18 November 2013.

JIM SCOTLAND

Chairman

Director

# STATEMENT OF **CASH FLOWS**

	2013	2012
Notes	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from Customers	61,981	63,077
Interest Received	_	14
	61,981	63,091
Cash was applied to:		
Payments to Suppliers and Employees	(37,051)	(37,614)
Interest Paid	(3,189)	(3,880)
GST Paid (Net)	(33)	(62)
Taxes Paid	(3,615)	(3,705)
	(43,888)	(45,261)
Net Cash Flows from Operating Activities	18,093	17,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Sale of Assets	_	1,670
	_	1,670
Cash was applied to:		
Purchase of Assets	(20,886)	(9,477)
	(20,886)	(9,477)
Net Cash Flows Used in Investing Activities	(20,886)	(7,807)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from Loan	9,000	-
Cash was applied to:		
Repayment of Loans	_	(4,200)
Dividends Paid	(6,081)	(5,854)
	(6,081)	(10,054)
Net Cash Flows Used in Financing Activities	2,919	(10,054)
Total Movements in Cash Balances	126	(31)
Cash and Cash Equivalents at Beginning of year		
Cash Balances	1	1
Bank Balance	(230)	(199)
	(229)	(198)
Cash and Cash Equivalents at End of Year		
Cash Balances	1	1
Bank Balance	(105)	(230)
17	(104)	(229)

# **RECONCILIATION OF SURPLUS**

#### AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

FOR THE YEAR ENDED 30 SEPTEMBER 2013

	2013	2012
	\$000	\$000
RECONCILIATION OF SURPLUS AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus after Taxation	11,830	11,080
Add non-cash items:		
Fair Value (Gains)/Losses	(1,278)	226
Depreciation and Amortisation	7,267	6,265
Deferred Tax	754	280
	6,743	6,771
(Deduct)/Add Other Adjustments:		
Net (Profit)/Loss on Sale of Property, Plant and Equipment	_	(117)
Write-down of Storage Shed on Demolition	_	919
Increase in Non-Current Provisions	22	10
	22	812
Movements in Working Capital:		
Increase/(Decrease) in Accounts Payable	258	(728)
(Increase) in Receivables	(796)	(184)
Decrease in Inventories	36	79
	(502)	(833)
Net Cash Inflow from Operating Activities	18,093	17,830

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2013

#### 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)

#### 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 & Equipment	3-25
Cargo & Administration Buildings	10-60
Other Buildings	10-25
Tugs	30
Soft Dredging	0
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 a performance incentive scheme for staff. The purpose of this scheme 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 AND OTHER TAXES

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 Company has not elected to early adopt any new standards or interpretations that are issued but not yet effective and no 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 2013. None of these are expected to have any significant effect on the financial statements of the Company other than by way of additional disclosure, they include:

- 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.

	2013 \$000	2012 \$000
4. REVENUE		••••••
Port Operations	62,081	60,287
Property Operations 16	16	18
Operating Income	62,097	60,305
5. OTHER EXPENSES		
ITEMS INCLUDED WITHIN OTHER OPERATING EXPENSES		
Auditors' Fees	113	93
Directors' Fees	272	253
Operating Leases	175	147
Bad Debts Fair Value (Gain)/Loss on Investment Property	(375)	2
Net (Profit)/Loss on Sale of Property, Plant and Equipment	(373)	(117)
Write-down of Storage Shed on Demolition	_	919
6. FINANCIAL INCOME AND EXPENSES		
Interest Income	(1)	(14)
Finance Income	(1)	(14)
Interest Expense on Borrowings	3,511	3,835
	3,511	3,835
Fair Value (Gain)/Loss on Interest Rate Swaps	(110)	30
Finance Expenses	3,401	3,865
Net Finance Costs	3,400	3,851
E TAVATIONI		
7. TAXATION		
Income Tax on the Surplus for the Year at 28.0 cents (2012: 28.0 cents)	4,567	4,289
Adjustment to Prior Year Taxation	3	(64)
Deferred Tax Adjustment due to tax rate changes from 30 cents to 28 cents Taxation Effect of Non-deductible Items	(89)	13
Income Tax Expense	4,481	
income tax expense	4,401	4,238
The Taxation charge is represented by:		
Current Taxation	4,487	3,839
Deferred Taxation	(6)	463
Deferred Tax Adjustment due to tax rate changes from 30 cents to 28 cents	_	(64)
Income Tax Expense Reported in the Income Statement	4,481	4,238

	2013	2012
	\$000	\$000
DEFERRED TAX LIABILITY		
Balance 1 October	(16,689)	(6,104)
Adjustment Prior Year Provision	32	(74)
Deferred Portion of Current Year Tax Expense	6	(463)
Amounts Charged or Credited Direct to Equity	(792)	(10,048)
Deferred Tax relating to tax rate changes from 30 cents to 28 cents	_	_
Balance 30 September	(17,443)	(16,689)
Deferred Taxation is represented by:		
Accelerated Tax Depreciation	(8,342)	(8,003)
Fair Value Gains/(Losses) on Derivatives	295	1,150
Revaluation of Sea Defences	(9,978)	(10,304)
Other	582	468
	(17,443)	(16,689)
IMPUTATION CREDIT ACCOUNT		
	40700	44000
Balance 30 September	16,702	14,320
O ODEDATING LEAGES		
8. OPERATING LEASES		
Leases as a lessee		
At balance date the Company had the following Operating Lease Commitments Payable within one year	144	99
Between one and two years	113	63
Between two and five years	80	_
Over five years	_	_
	337	162
9. DIVIDENDS		
2013 Interim Dividend Paid - 14.63 cents per share (2012: 14.5 cps)	3,072	2,971
2012 Final Dividend Paid - 14.33 cents per share (2011: 13.73 cps)	3,009	2,883
	6,081	5,854
10. CAPITAL AND RESERVES		
SHARE CAPITAL		
Issued and Paid Up		
21,000,000 ordinary shares (2012: 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.	(759)	(2,797)
		•••••••••••••••••••••••••••••••••••••••
REVALUATION RESERVE	62.22	00.000
The revaluation reserve relates to the revaluation of the Port sea defences.	62,008	62,008

	2013 \$000	2012 \$000
11. TRADE AND OTHER RECEIVABLES		
Trade Receivables	5,676	4,007
Accruals and Prepayments	1,423	2,296
	7,099	6,303
The ageing of trade receivables at reporting dates is set out below:  Not past due  Past due 0 - 30 days	4,884 453	3,436 469
Past due 30 - 60 days	133	70 32
Past due > 60 days	206	4 007
	5,676	4,007

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	1,458	1,510
Trade Accruals	1,246	803
Employee Entitlement Accruals	2,529	2,774
	5.233	5.087

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

Employee Entitlement Accruals also include staff performance incentive payments due.

## 13. PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Non-Current		
Provision for Employee Entitlements	311	289
	311	289
Provision for Non-Current Employee Entitlements		
Balance at beginning of year:	289	279
Additional provision made	69	55
Amount utilised	(47)	(45)
Balance at end of year:	••••••	•••••••••••••••••••••••••••••••••••••••
Current	-	-
Non-Current	311	289

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	Book Value
2013									
Computer Software 2012	3,414	182	-	3,596	3,033	287	-	3,320	276
Computer Software	3,316	98	-	3,414	2,634	399	_	3,033	381
				_					
15. PROPERTY, PLA	NT AND	EQUI	PMENT						
	Opening Cost/ Valuation	Revaluation/ Additions	Transfer/ Disposals	Closing Cost/ Valuation	Opening Accum Depreciation	Current Year Depreciation	Transfer/ Disposals	Closing Accum Depreciation	Book Value
<b>\$000</b> 2013	00%	Δ∢	۲۵	00%	040	00		OΑD	Ш
Port Land	29,943	_	_	29,943	_	_	_	_	29,943
Sea Defences	76,527	_	_	76,527	_	326	_	326	76,201
Cargo & Admin. Buildings	12,270	5,211	-	17,481	4,467	846	_	5,313	12,168
Tugs	24,098	· –	_	24,098	1,416	396	_	1,812	22,286
Site Improvements	43,105	525	-	43,630	13,256	1,205	_	14,461	29,169
Hard Dredging	4,814	_	-	4,814	-	_	_	-	4,814
Soft Dredging	4,613	-	-	4,613	1,820	477	_	2,297	2,316
Other Buildings	3,537	42	-	3,579	1,609	117	_	1,726	1,853
Wharves & Jetties	42,458	145	-	42,603	5,858	546	_	6,404	36,199
Cranes	13,646	-	_	13,646	6,326	1,102	_	7,428	6,218
Vehicles, Plant & Equipment	28,080	4,574	-	32,654	14,176	1,965	_	16,141	16,513
Work in Progress	1,050	20,977	(10,769)				<u> </u>		11,258
	284,141	31,474	(10,769)	304,846	48,928	6,980	-	55,908	248,938
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	(450)	13,646	5,512	814	(400)	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 <b>90,734</b>	(9,044)	1,050	/3 07/	5,865	(011)	48 029	1,050
	204,334	30,134	(10,927)	204,141	43,974	5,005	(311)	40,326	235,213

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 database.
- 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 New Zealand 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 separate 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 was assessed for impairment utilising an independent business valuation undertaken during the year. No impairment has been deemed necessary.

	2013	
	\$000	\$000
16. INVESTMENT PROPERTIES		
Land and Building	6,660	6,285
Balance at beginning of year	6,285	6,285
Disposals	-	_
Net Gain from Fair Value Adjustments	375	_
Balance at end of year	6,660	6,285

As at 30 September 2013 the Port's interest in investment properties was valued at \$6,660,000, resulting in a \$375,000 increase 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.

The following amounts have been recognised in the Income Statement:

Rental Income	16	18
Direct operating expenses arising from investment properties that generate rental income	(16)	(17)
17. CASH AND CASH EQUIVALENTS		
Cash	1	1
Bank Overdraft	(105)	(230)
	(104)	(229)

#### 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	
	Rates & Resource Consents	8	18	
	Subvention Payment	368	432	
Hawke's Bay Regional Investment Company	Dividends	6,081	_	

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	2,129	1,868
	2,129	1,868

#### CAPITAL EXPENDITURE COMMITMENTS & CONTINGENCIES

#### Capital Expenditure Commitments:

At balance date there were commitments in respect of contracts for capital expenditure including plant, dredging and software totalling \$8,609,000 (2012: \$823,000).

#### Contingent Liabilities:

There were no material contingent liabilities at balance date (2012: 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 are as disclosed elsewhere in the Statement of Financial Position and there is no collateral held.

#### 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:

#### **Contractual Maturity Analysis**

	Carrying	Cash	Less	1 - 2	2 - 5	More
	Amount	Flows to	than	Years	Years	than
		Maturity	1 Year			5 Years
	\$000	\$000	\$000	\$000	\$000	\$000
2013						•••••••••••••••••••••••••••••••••••••••
Trade and other payables	1,458	1,458	1,458	-	_	_
Bank borrowings	60,000	62,250	2,250	60,000	_	_
Interest rate swaps	1,131	1,053	965	465	(42)	(335)
Forward exchange contracts	34	2,746	2,746	_	-	-
	62,623	67,507	7,419	60,465	(42)	(335)
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

#### 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:

	\$000	\$000
Less than 1 Year	5,500	_
1 - 2 Years	10,000	5,500
2 - 3 Years	_	10,000
Greater than 3 Years	52,500	40,000
	68,000	55,500

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

	Pro	ofit or Loss	Other Comprehensive Income		
	100bp	100bp	100bp	100bp	
	Increase	Decrease	Increase	Decrease	
	\$000	\$000	\$000	\$000	
Interest Rate Swaps	61	(62)	1,991	(2,135)	
30 September 2013	61	(62)	1,991	(2,135)	
Interest Rate Swaps	109	(112)	1,833	(1,952)	
30 September 2012	109	(112)	1,833	(1,952)	

#### **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

	Amount \$000	Currency Amount 1 Year \$000	Less than \$000	1 - 2 Years \$000	2 - 5 Years \$000
2013	•••••		•••••		
EUR	1,839	1,112	1,112	_	_
AUD	907	794	794	-	_
	2,746	••••••	•••••	***************************************	•
2012					
EUR	_	_	_	_	_
AUD	_	_	_	_	_
					••••••

#### Foreign Exchange Sensitivity Analysis

At reporting date, a 10% strengthening or weakening of the New Zealand dollar against the EUR and AUD with all other variables held constant, would increase/(decrease) other comprensive income by the amounts shown below.

There would be no material changes to profit and loss values.

	Profit or Loss		Other Comprehensive Income		
10%	NZD 10%	NZD	10% [	NZD 10 <sup>0</sup>	% NZD
Incre	ease Decr	ease	Incre	ease De	crease
\$	0000	\$000	\$	000	\$000
30 September 2013	_	_	(	246)	301
30 September 2012	_	_	•••••	_	_
·					
			2013		2012
			\$000		\$000
CREDIT FACILITIES					••••••
At balance date the Company had total bank facilities	of:				
			1 000		1 000
Overdraft Multi antion gradit facilities			1,000		1,000
Multi option credit facilities			80,000		30,000
Total			81,000	1	81,000
At balance date the Company usage of the bank facil	ities was:				
Overdraft			105		230
Multi option credit facilities			60,000	Ę	51,000
Total	***************************************		60,105		51,230

The Company has two multi option credit facilities with Westpac Banking Corporation, 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

#### **Financial Assets**

Financial Assets at Fair Value - Cash Flow Hedges		
Interest Rate Swaps	578	_
Forward Foreign Exchange Contracts	_	-
	578	_
Loans and Receivables		
Cash	1	1
Receivables	5,676	4,007
	5,677	4,008
Total Financial Assets	6,255	4,008

	2013	2012
	\$000	\$000
Financial Liabilities		
Financial Liabilities at Fair Value - Cash Flow Hedges		
Interest Rate Swaps	1,709	4,106
Forward Foreign Exchange Contracts	34	_
	1,743	4,106
Financial Liabilities at Amortised Cost		
Overdraft	105	230
Trade payables	1,458	1,510
Loan	60,000	51,000
	61,563	52,740
Total Financial Liabilities	63,306	56,846

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

The two mobile harbour cranes ordered in 2012 were delivered to Napier Port in September 2013. At balance date the cranes were still being commissioned and progress payments to date of \$9,277,975 were recorded in Note 15 Property, Plant and Equipment, "Work in Progress". The cranes' Work in Progress balance will be transferred to the 'Cranes' category of Property, Plant and Equipment when they go into service in December 2013.

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.





## **AUDITOR'S REPORT**

# TO THE READERS OF PORT OF NAPIER LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2013

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 28 to 48, that comprise the statement of financial position as at 30 September 2013, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

#### OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements of the company on pages 28 to 48:

- · 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 2013; 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 18 November 2013. 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. Also we did not evaluate the security and controls over the electronic publication 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 is also responsible for the publication of the financial statements, whether in printed or electronic form.

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

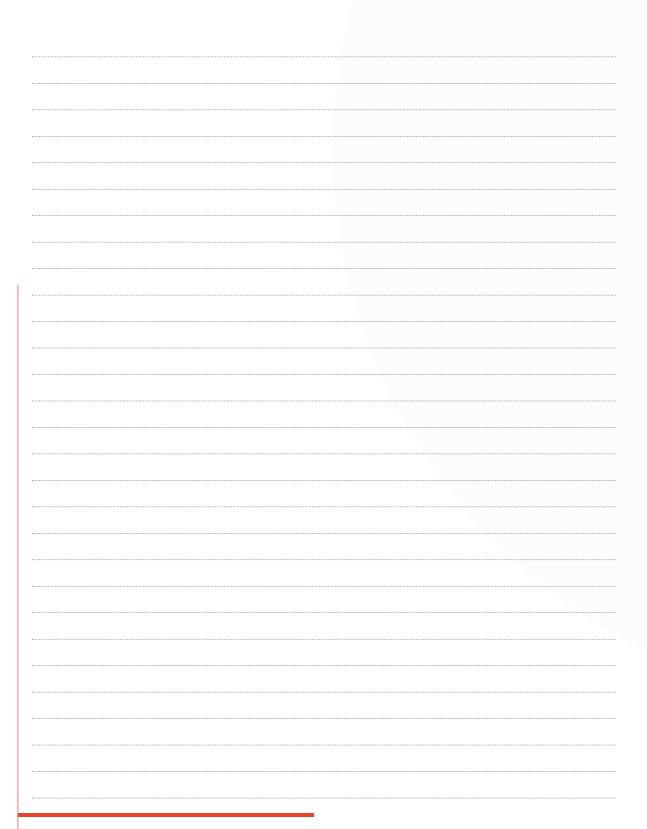
On behalf of the Auditor-General Wellington, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS

This audit report relates to the financial statements of Port of Napier Limited for the year ended 30 September 2013 included on the Port of Napier's web site. The Port of Napier Limited Board of Directors is responsible for the maintenance and integrity of the Port of Napier's web site. We have not been engaged to report on the integrity of the Port of Napier's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. The audit report refers only to the financial statements need above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 18 November 2013 to confirm the information included in the audited financial statements presented on this web site on in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **NOTES**

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# ACTA5073

### REGISTERED OFFICE

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New Zealand 06 833 4400 &

06 833 4408 💍

00 000 4400

#### **BANKERS**

Westpac Banking Corporation PO Box 691 Wellington 6140

#### **SOLICITORS**

Sainsbury Logan & Williams PO Box 41 Napier 4140

#### **AUDITORS**

Ernst & Young
PO Box 490
Wellington 6140
on behalf of the Auditor-General



BETTER PEOPLE O BETTER ANSWERS