

# 2018

Port Marlborough  
ANNUAL REPORT



PORT marlborough  
NEW ZEALAND LTD



A red boat with the name 'ENDEAVOUR' written in large, black, serif capital letters on a wooden sign above the cabin. The cabin has several windows with white frames. One window shows a person wearing a high-visibility orange and black safety vest. The boat is set against a blue sky with scattered white clouds.

# ENDEAVOUR

**We create value for customers and for Marlborough by delivering excellence in port and marina services and facilities. We demonstrate environmental leadership and achieve improvement through innovation.**

## **SAFETY**

We prevent harm to people in our workplace

## **ENVIRONMENT**

We respect our environment and minimise our environmental footprint

## **INTEGRITY**

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

## **RECOGNITION**

We value and acknowledge our people and what they achieve

## **ENGAGEMENT**

We connect openly with our communities





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# 3,363

Vessel visits over  
500GRT

# 2,744,891

Ferries: Lane metres freight  
(rail and commercial vehicles)

# 678,933

JAS logs exported

# 41

Cruise ship visits

# 1,219,337

Passengers through Port  
(Ferry and cruise ship passengers)

# 1,450

Vessels accommodated  
at marinas

## THE 2018 YEAR IN SUMMARY

### Results in Brief and Operational Summary

#### Group Results

	2018	2017
Operating Surplus (Loss) before Non-Cash Revaluations, Tax and Subvention Payment	\$10.202m	\$9.645m
Valuation Adjustments Non-Cash		
- Property	\$2.913m	(\$0.751m)
- Financial Derivatives	(\$0.127m)	\$1.177m
Operating Surplus (Loss) before Tax and Subvention Payment	\$12.988m	\$10.071m
Provision for Tax and Subvention Payment	(\$2.500m)	(\$2.865m)
Operating Surplus / (Loss) After Tax	\$10.488m	\$7.206m
After Tax Return on Average Shareholder's Funds (excludes non-cash revaluations)	6.19%	5.09%
Net Asset Backing per Share	\$9.70	\$9.17
Interim Dividends	9.0c	8.4c
Final Dividend – Recommended per Share	14.9c	14.0c
Dividend – Interim and Proposed Final	\$3.247m	\$3.044m

#### Contribution to Group Revenues

	2018 (\$000)	2017 (\$000)
Port Installations and Services	17,670	16,844
Investment Property (includes Marinas)	10,141	9,669
Marine Farm Facilities	769	763
Miscellaneous	107	121
<b>TOTAL GROUP REVENUE*</b>	<b>28,687</b>	<b>27,397</b>

\* Excludes non-cash revaluations



## KEY OPERATIONAL PERFORMANCE INDICATORS

Number of Ship Visits	2018	2017	2016
Ferries	3,156	3,032	3,534
Cruise Ships	41	39	35
Other over 500 GRT	166	157	151
<b>Total Ship Visits</b>	<b>3,363</b>	<b>3,228</b>	<b>3,720</b>

### Non-Ferry Cargoes

Logs (Export and Domestic, JAS '000s)	709,333	749,241	705,547
Salt (Tonnes)	2,200	-	27,106
Cement (Tonnes)	17,277	18,436	9,763
Fish (Tonnes)	13,013	15,594	10,357
Other (Tonnes)	54,343	43,853	34,141
<b>Total Cargo (Tonnes)</b>	<b>796,166</b>	<b>827,124</b>	<b>786,914</b>

### Marina Facilities

#### Berth Occupancy (average %)

Havelock Marina (370 berths)	81%	77%	69%
Waikawa Marina (478 berths)	96%	95%	96%
Picton Marina (206 berths)	101%	100%	100%
<b>Total Average Occupancy</b>	<b>92%</b>	<b>89%</b>	<b>88%</b>



## PORT PROFILE

Port Marlborough New Zealand Limited operates Marlborough's regional port and marina facilities. The Company plays a key role in Marlborough's economy, facilitating growth of some of the region's most significant and emerging industries including tourism, forestry export, wine, fishing and aquaculture. Environmental leadership, preventing harm, valuing the accomplishments of our people and engaging with our communities are top priorities for us.

Port Marlborough has three primary spheres of operation. Strategically located at the junction of New Zealand's major North/South road and rail routes with the coast, the port provides the South Island terminal for inter-island passenger and freight ferries at Picton. The Port operates New Zealand's deepest export shipping berth at Waimahara Wharf in Shakespeare Bay, and a multipurpose berth at Waitohi Wharf in Picton Harbour. Picton is a popular cruise ship port, and the Waimahara Berth has capacity for the world's largest class of cruise vessel.

Port Marlborough is one of the largest marina operators in New Zealand with three marinas at Picton, Waikawa and Havelock providing more than 1050 berths and accommodation for a further 500 vessels in boat sheds and storage compounds, and launching ramps for small craft.

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

## FACILITIES

### PICTON

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

### WAIKAWA

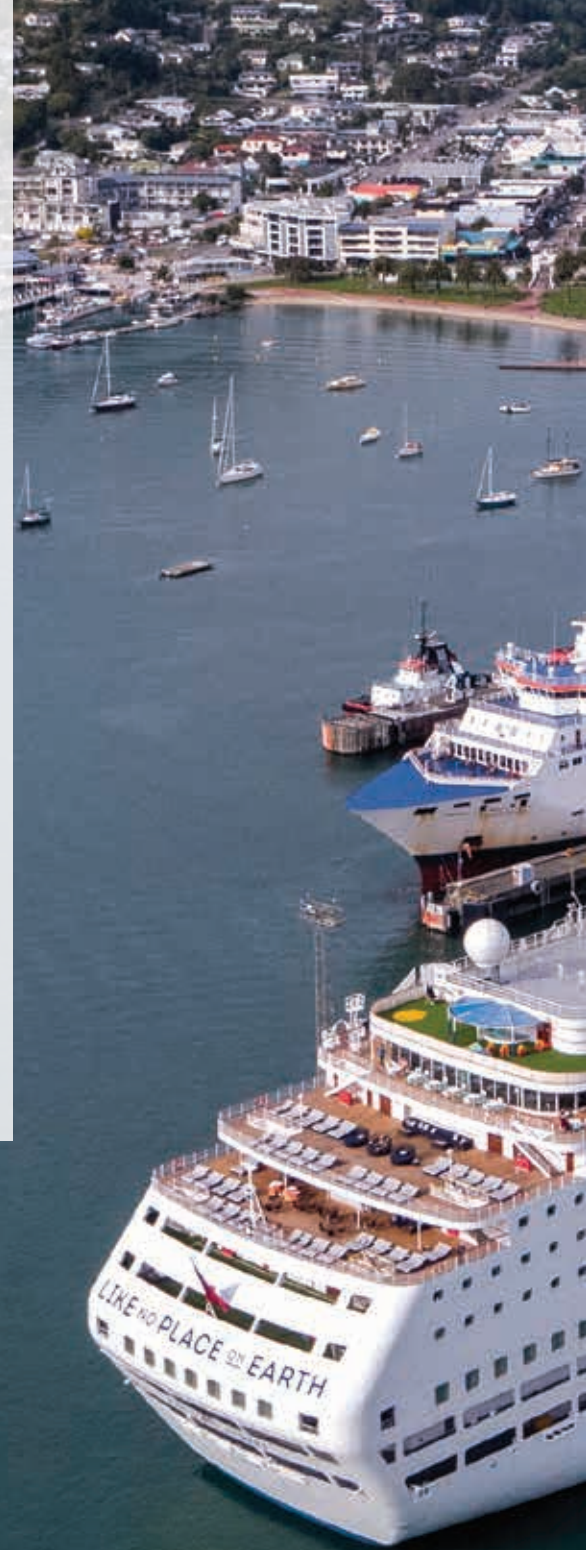
- Waikawa Marina, including land-based boat storage and launching facilities
- Waikawa Travelift haulout and hardstand facility (capacity >50 vessels)
- Waikawa Marine Centre, a cluster of marine service industry and hospitality businesses associated with the Marina.

### HAVELOCK

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

### MARLBOROUGH SOUNDS

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







## SUBSIDIARIES

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

## OWNERSHIP

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

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





Rhys Welbourn  
(Chief Executive)

Ed Johnson  
(Chairman)



# REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

We welcome the opportunity to report on another year of strong financial performance across the business, achieved through focused, responsive and competent service delivery to our customers. Continued revenue growth has again flowed through to the bottom line, providing for reinvestment in productive assets and staff capability alongside an increased return to our Shareholder.

Recovery of east coast road and rail infrastructure following the November 2016 Kaikoura earthquake reached an essential milestone in December 2017 when State Highway 1 was reopened to all traffic during daylight hours. Picton and wider Marlborough immediately felt positive impacts with solid resurgence of the visitor economy over the summer, aided by exceptional weather and further boosted by a record year for cruise visitors.

Full opening of the road 24/7 was not achieved until autumn, resulting in continued disruption to commercial road and rail freight throughout the financial year and consequent depression of freight volumes across Cook Strait. Ongoing freight volumes heading into the new financial year indicate that full recovery may take some time yet.

Export log volumes held steady at close to the record levels achieved in the prior year, supported by a steady cut of domestic logs to bring total throughput above 700,000 JAS for the fourth consecutive year.

The Port's investment in increased capacity at the Waimahara berth was rewarded by four visits of *Ovation of the Seas*, and continued growth in overall vessel and passenger numbers. Confirmation that Marlborough will host the flagship 2018 NZ Cruise Industry Association conference later in the calendar year creates an outstanding opportunity for promotion of the region to leading industry decision makers and influencers.

The recreational boating sector responded to exceptional summer weather and recovery of easier access from Canterbury, delivering one of our busiest summers ever in the marinas. In June the Company achieved resource consent for a 240-berth North West Waikawa Marina extension, following many years of project development and community consultation. With both Waikawa and Picton Marinas effectively full, detailed project design and costing will be completed ahead of business case development for potential construction of new marina capacity to begin during the 2019 calendar year.

Purchase of a second harbour tug *Monowai* was concluded early in the year. Investment activity at Havelock continued in support of the aquaculture sector, while incremental investment and half-life refurbishment is on-going at the marinas.

Following a hiatus during the previous period as Cook Strait ferry operators responded to business disruption following the Kaikoura earthquake, consideration of options for future reconfiguration and redevelopment of the Port's ferry precinct resumed in collaboration with key customers. This process is active and ongoing at the time of writing.

The potential for development of a dry dock for large vessels is being explored for Shakespeare Bay. We believe Shakespeare Bay provides an excellent site where a dry dock can be – and would only be – built and operated with environmental integrity. A dry dock facility at Picton would deliver real value to dock users and enormous economic benefits for Picton and to Marlborough as a region. We continue to pursue this opportunity with vigour.

Early in 2018 the Board and Senior Leadership Team worked through our programmed two-yearly full review of the Company's strategic plan. This time around we took a stronger 'futures' view of the process, anticipating the world in decades to come, and the place Port Marlborough might have in that future. While endorsing much of our existing strategic direction, this process underscored the critical need for long term sustainability of the unique natural environment in which we operate, and alignment with community aspirations and objectives.

Internal process improvement focus has continued to develop asset management and safety systems including implementation of fully controlled port access, and a refresh of enterprise software applications. We continued to maintain our operations within the provisions of the New Zealand Port and Harbour Marine Safety Code throughout the period, consistent with our ongoing commitment to navigational safety.



## 2017/18 STATEMENT OF CORPORATE INTENT PERFORMANCE TARGETS

The targets for financial and operational performance, as detailed in the 2017/18 Statement of Corporate Intent, are compared below with actual results achieved for the period 1 July 2017 to 30 June 2018.

FINANCIAL PERFORMANCE	TARGET	RESULT
Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA) - excludes non cash revaluations	\$13.55m	\$14.39m
Return on Shareholder's Funds (excluding non-cash revaluations)	5.3%	6.2%
Equity Ratio	72.7%	74.9%

### OPERATIONAL PERFORMANCE

Ferry freight movement (% volume movement to prior year)	2.0%	-5.5%
Export log volumes	690,000 JAS	678,933JAS
Cruise ship visits	43	41
Marina berth occupancy	89%	91.8%
Marina boatshed occupancy	96%	99.6%

### HEALTH AND SAFETY

Lost time accidents frequency rate (per 100,000 work hours)	0	0
Number of injury accidents	<5	4









## FINANCIAL PERFORMANCE

The Group's revenue increased 4.9% year-on-year to \$28.69 million (2017: \$27.40 million). This continues the Company's steady growth trajectory and brings total revenue growth across the past five years to 34%.

Total cargo tonnage through the Port softened 6% to 2016 levels, partly as a result of reduced Cook Strait ferry freight. Log exports just below the prior year's record level characterised strong port performance across all trades. The Marinas portfolio continues to make a significant contribution, with occupancy levels effectively 100% at Picton and Waikawa. Integrated property development projects completed in prior years continue to sustain consistent returns, with the Havelock portfolio in particular now having achieved considerable critical mass.

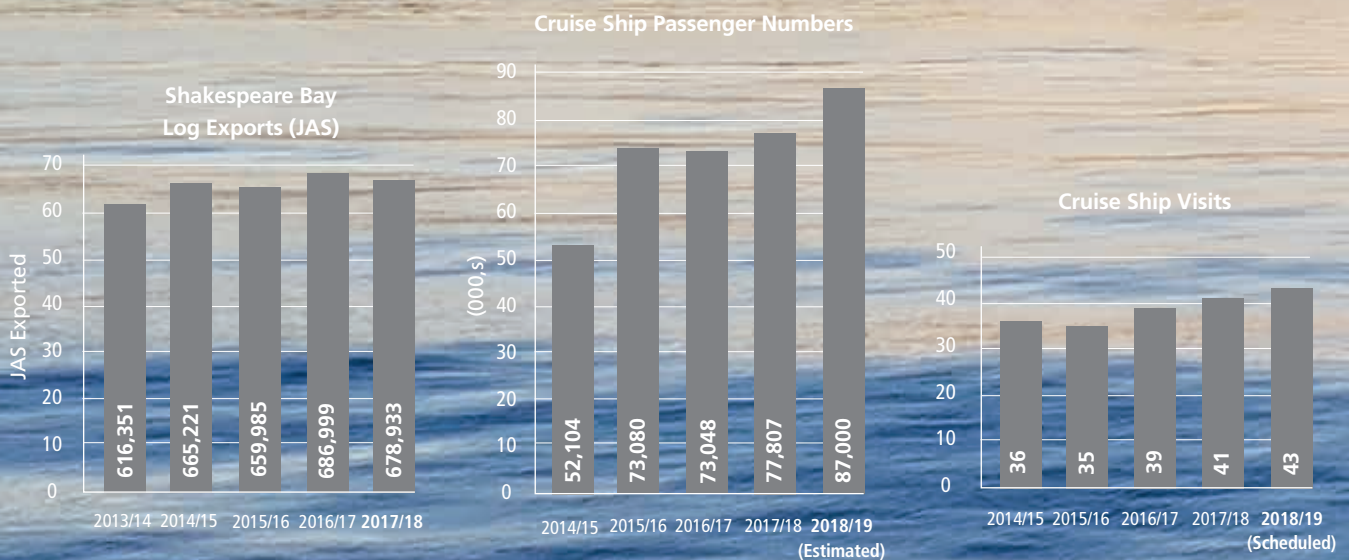
Group record pre-tax operating surplus at \$10.20 million (adjusted for non-cash revaluations and subvention payment) for the year ended 30 June 2018 reflects positive operational results across the business.

Capital investment in core port infrastructure and integrated property development continued. Purchase of a second harbour tug, *Monowai*, supports continually increasing vessel sizes. Significant investment continued at Havelock in support of aquaculture value-add businesses; and additional boatshed stock was delivered at Waikawa Marina. Half-life refurbishment of Waikawa Marina berths was completed and a similar process began at Picton Marina.

## FINANCIAL POSITION AND DIVIDEND

Value of total Group assets at \$175.89 million has increased 3% on the previous year. The Group's equity ratio of 74.9% is satisfactory and is considered appropriate for our diversified business portfolio.

Directors are proposing a final dividend of \$2.02 million, bringing the total distribution for the year to \$3.25 million. Port Marlborough has distributed a total of \$31.5 million in dividends to our shareholder, a wholly owned subsidiary of Marlborough District Council, over the last ten years and \$70 million since the Company was established in 1988.





## GOVERNANCE

Directors Peter Drummond and Mathew Kerr retired from the Board by rotation at the December 2017 AGM and were reappointed.

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

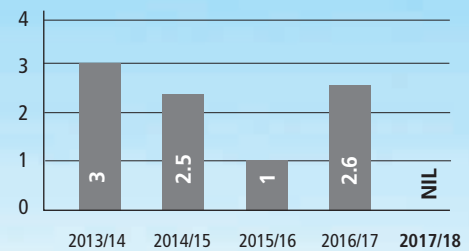
## HEALTH AND SAFETY

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

Improvement activities continued with health and safety leadership and technical training delivered to a wide range of staff across the business. Engagement with Port Users through established Port User Forums continued to strengthen relationships with the Port and between co-users. Implementation of fully controlled access to the operational port area provides a significant control for managing safety within the Port. The process of implementation has provided productive opportunities for staff and user education and relationship development, setting the scene for increased user engagement regarding health and safety, environmental and other operational matters.

Consistent with our commitment to providing a safe and health working environment, a Drug and Alcohol Policy and Procedure developed during the period in consultation with staff and the RMTU have been implemented subsequent to balance date.

**Lost Time Injuries**  
(LTI/100,000 hours)





## OUR PEOPLE

Our performance is a direct result of the professionalism and commitment of our staff and their interaction with our customers, contractors and the public. We thank them and wish to recognise their efforts every day in every way.

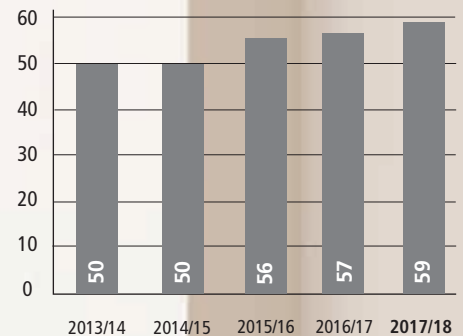
Ian McNabb retired in December after ten years as Port Marlborough's Chief Executive. Ian successfully developed a strong strategic focus for the business, achieving notable milestones including resolution of the 'Clifford Bay' threat to Picton ferry terminal services, and development of strong relationships with tangata whenua iwi. Rhys Welbourn, previously the Company's Business Delivery Manager, was appointed Chief Executive in December 2017 following an extensive executive search.

Reconfiguration of the Senior Leadership Team has retained existing members and brought two additional senior staff through to the Senior Leadership table, recognising internal talent, experience, and team fit.

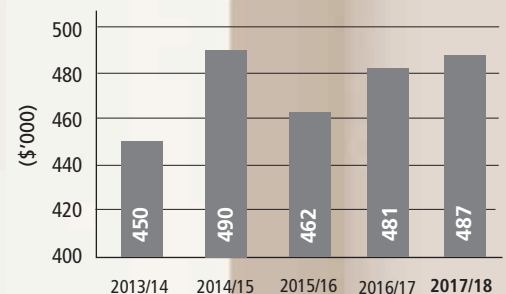
Sustained business growth over recent years has enabled us to recruit a number of additional capable, motivated individuals to the team. The resultant blending of corporate knowledge and experience with fresh perspectives is delivering innovative, effective solutions across all work areas.

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

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



**Revenue per Fulltime Employee**



### **Angela Hockenhull**

*Technical Support, Engineering.*

Angela Hockenhull has worked at Port Marlborough for the past two and a half years providing technical support to the workshop and engineering team.

She swapped 23 years of service with the New Zealand Defence Force for Port Marlborough, and says she chose to work here because the company has similar ethics to the NZDF.

"I think there are similarities between the two because you're working with like-minded people, there's a great team environment. They like the outdoors and you are surrounded by genuine, good people."

Ange enjoys her role because she sees work requests through from beginning to end and she likes supporting the workshop team, especially helping out with ships' lines.

"It's still breath-taking every time I go out to Waimahara Wharf and help the team tie up or let go the cruise ships because being in front of those big monster ships is just amazing."

The most important thing about Port Marlborough for Ange is the good working relationships she has forged with staff and contractors alike.

"It's nice to be in an environment where everyone gets along. I think the company is going ahead, it's got good forward thinking and is really thinking about the future environmentally. It's exciting to work at a place that has so many big projects on the go all at once."







### **Ryan Lock**

*Property & Business Development Manager.*

Port Marlborough's Property & Business Development Manager, Ryan Lock, has been in the role for two and a half years after moving back to the region from Wellington.

Ryan says being close to family and the lifestyle in Marlborough are what brought him back here with partner, Huanoa; and they now share these with their eight-month old son, Jude.

The best part of Ryan's job is the satisfaction which comes from seeing exciting projects through from beginning to end. He says understanding what a customer needs when developing a project and then delivering a product that will help drive their business forward is another aspect he loves about the job.

"I like this job because it's nice and flexible; you meet lots of different people from all walks of life. On any given day you might be dealing with fishermen to business owners so it's quite diverse."

Ryan says the best thing about working for Port Marlborough is the opportunity available within the company to learn and experience new things each day while working alongside great people.

"The team here are like-minded, light-hearted people who like to have fun. It doesn't feel hard to work with them; I look forward to coming to work."

### **Mike Beech**

*Tug Master.*

Mike Beech is one of Port Marlborough's Tug Masters and has been a full time member of staff for a year, building on an extensive career at sea.

Mike's job is to drive Port Marlborough's tugs – either *Monowai* or *Maungatea* - to help large vessels navigate and berth in and around the Port.

For log ships this means physically pushing and pulling the ship into the required position. Modern cruise ships are generally well-equipped with thrusters for greater self-maneuvrability, and the tugs steam alongside them on stand-by as a precaution.

Mike also skips the Pilot Launch *Endeavour*, delivering Port Marlborough's Marine Pilots out to meet ships at the northern entrance of the Queen Charlotte. He says nothing beats cruising the Sounds on a beautiful, calm day with the sunrise or sunset.

Although log ships are Mike's favourite, he also enjoys being alongside cruise ships to see the people on board. "With cruise ships if the passengers are ready for us there's delight and waves and smiles, but if they suddenly open their porthole curtain and we're right there, it gives them a bit of a fright. Overall they love it."

Mike lives in Shakespeare Bay with his partner Bec and three children, Noah, Xavier and Violet and says the best part of his job is making the "big machines dance" while also getting to do a job he loves and still being close to family.







## OUTLOOK

Strong trade through the Port is forecast to continue through 2019 with export log volumes of around 690,000 JAS again expected through Shakespeare Bay. A slow recovery in total Cook Strait freight volumes is anticipated as reliability of the east coast State Highway and rail networks is consolidated.

Picton is scheduled to host a record forty-three cruise ship visits (including six visits by *Ovation of the Seas*) during the coming summer, bringing close to 90,000 visitors to the region. Marlborough's hosting of the 2018 NZ Cruise Industry Conference will provide an excellent platform to further cement our place as a preferred cruise destination.

We remain on track for another positive summer in the marinas, with continuing resurgence in recreational boating activity and strong domestic tourism through Picton and the Marlborough Sounds.

There is real potential for three significant capital development opportunities in the coming short to medium term. Consideration of a business case for extension of Waikawa Marina during the coming period may see construction begin as early as winter 2019. Clearer planning for medium term ferry requirements will be informed by customer decisions and our collaboration with them; while active pursuit of a Shakespeare Bay dry dock facility remains firmly in our sights.

## CONCLUSION


Port Marlborough is consistently delivering sustainable growth and profitability across a well-balanced business portfolio, within a context of safe operation and environmental competence. The Company is well set to respond to customer requirements, whether business-as-usual or opportunities for new business.

Through achievement of resource consent for extension of Waikawa Marina, the scene is now set for significant investment in new marina capacity contingent on a successful business case being established for the project. In addition, two further significant capital projects may come on stream to fuel growth in the medium term, with associated capital requirements.

A cohesive leadership transition has ensured continuity for the business, which remains in excellent health. The refreshed team is well equipped to continue the journey of growth, value add, community engagement and environmental leadership.



E G (Ed) Johnson  
Chairman



Rhys Welbourn  
Chief Executive



## Farewell Ian McNabb

Chief Executive Ian McNabb's retirement from Port Marlborough in December 2017 marked a decade of integrated, strategically focused business growth for the company.

Bringing to the role extensive understanding of property valuation and management, negotiation, iwi organisations and local government (and having been an inaugural Director of Port Marlborough in 1988), Ian was well placed to make a material contribution on his arrival at Port Marlborough in April 2008.

Ian established a strong and productive relationship with both the Board and Shareholder and has been very appreciative of their support, particularly noting the experience and counsel of Ed Johnson who has chaired the Board since December 2008. With the Board and his team, Ian established a structured, enduring strategic planning approach for the business focussed strongly on the core business of the Port and Marinas, targeting growth through incremental, integrated and secure capital investment.

Ian credits the Board's confidence in management's ability to reliably deliver business strategy, and an appetite for open community relationships, as key to his successful tenure. This approach has delivered 48% revenue growth (\$18.8m to \$27.8m) and 27% growth in total assets (\$138m to \$176m) across the ten years from 2008 to 2018. Total dividends of \$31.5m have been paid to the Shareholder through this period, and direct employee numbers have grown from 38 to 59 permanent staff.

Three outcomes achieved under Ian's leadership hold particular significance for him.

Firstly, following decades of on-again, off-again proposals for relocation of the South Island interisland ferry terminal from Picton to Clifford Bay, the Government initiated a further review in 2011. Ian worked with huge determination to demonstrate that Picton remains the best option, and was rewarded by the Minister of Transport's announcement in November 2013 that the southern terminal will remain in Picton for the foreseeable future.



In parallel with the Clifford Bay decision, Port Marlborough has concluded business contracts with both Cook Strait ferry operators that provide for operational activities and anticipate ongoing capital development in response to customer business growth and potential fleet reconfiguration.

In 2014, Port Marlborough signed a formal agreement with Te Ātiawa, paving the way for an enduring and respectful relationship; and enabling resolution of Plan Change 21 to provide a comprehensive planning framework for Waikawa Bay.

Ian has left the business in good financial health with a quality, well-maintained asset base. Strong teams are in place throughout the business to continue our socially and environmentally sustainable delivery of value to our customers and to Marlborough.











## REVIEW OF OPERATIONS

We continue to work hard to increase our understanding of customer needs, opportunities and expectations across all of the Company's operational sectors, to better focus service and value delivery initiatives to our full customer base.

### PORT OPERATIONS

Port towage capacity was increased early in the year with the purchase of *Monowai*, a 28 tonne bollard-pull harbour tug formerly in service at South Port, Bluff. Addition of a second tug to the Port's marine fleet supports increasing bulk vessel sizes and visit frequency, improves our emergency response capability, and generally adds resilience to the Port's commercial shipping operations.

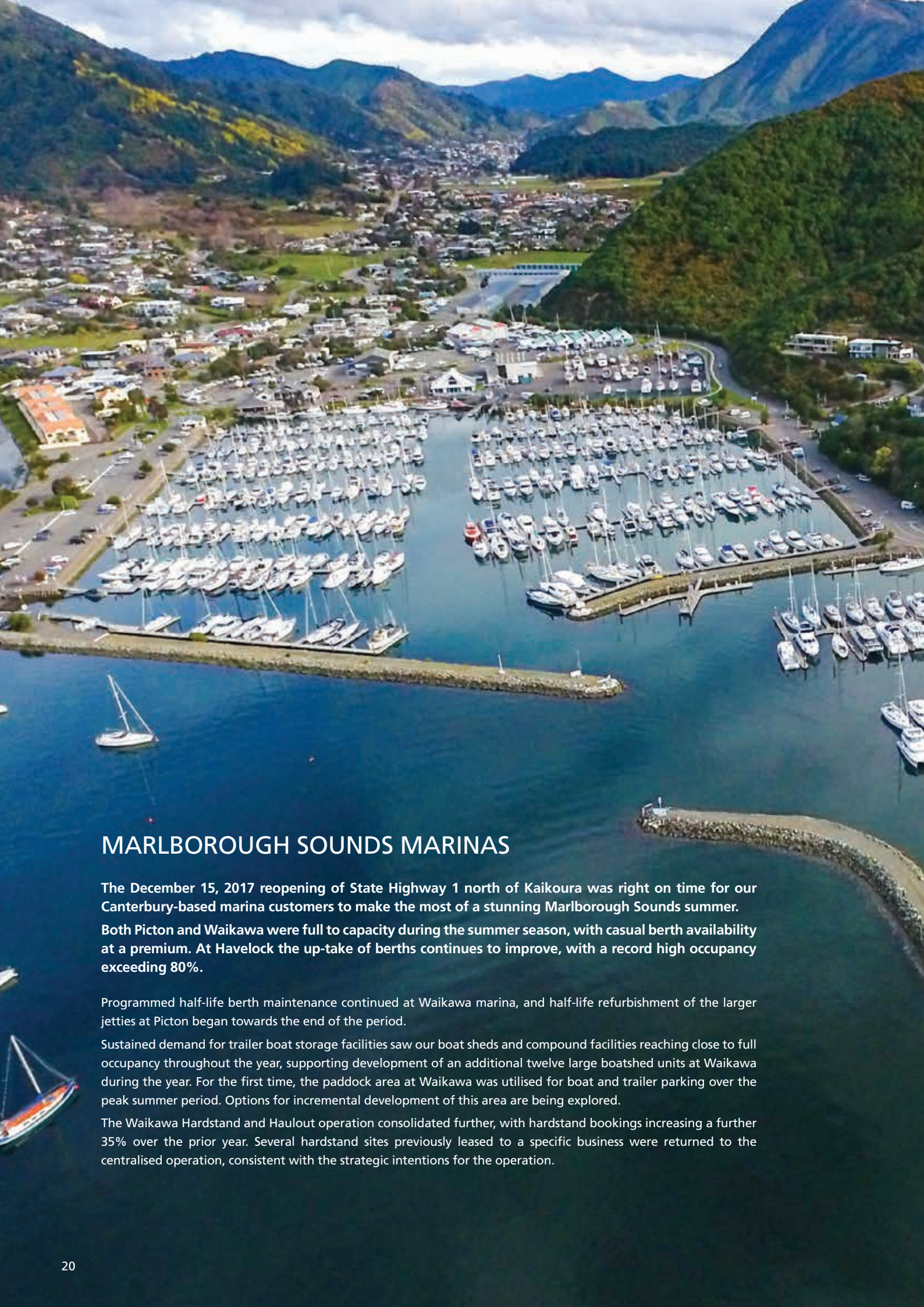
Log exports at Shakespeare Bay reached 678,933 JAS, within 1.2% of the previous year's record volumes. Despite the marginal softening of volume, the number of log ship visits increased from 39 to 44 as some exporters opted for more frequent shipping arrangements. Current storage and export volumes remain well within the comfort range for Shakespeare Bay, which has potential export capacity in excess of one million JAS per annum.

Cook Strait ferry passenger and private vehicle services recovered to just better than pre-Kaikoura earthquake volumes following reopening of the primary State Highway 1 coastal route, up 0.7% and 4.1% respectively on pre-quake (2016) volumes. Commercial freight and rail continued to be impacted throughout the full period as overnight closures continued to enable completion of road and rail rebuild activities.

During the 2017-18 cruise season Picton hosted 41 ship visits including four visits by *Ovation of the Seas*. A further four ship visits utilised Port Marlborough pilotage services while cruising the Sounds. Total visitor numbers reached 77,807, up 6.5% on the previous year and reflecting the increased average size of vessels visiting the region.

Other trades through the Port mainly comprising cement import, domestic logs and fish, remained relatively steady year on year.





## MARLBOROUGH SOUNDS MARINAS

The December 15, 2017 reopening of State Highway 1 north of Kaikoura was right on time for our Canterbury-based marina customers to make the most of a stunning Marlborough Sounds summer.

Both Picton and Waikawa were full to capacity during the summer season, with casual berth availability at a premium. At Havelock the up-take of berths continues to improve, with a record high occupancy exceeding 80%.

Programmed half-life berth maintenance continued at Waikawa marina, and half-life refurbishment of the larger jetties at Picton began towards the end of the period.

Sustained demand for trailer boat storage facilities saw our boat sheds and compound facilities reaching close to full occupancy throughout the year, supporting development of an additional twelve large boatshed units at Waikawa during the year. For the first time, the paddock area at Waikawa was utilised for boat and trailer parking over the peak summer period. Options for incremental development of this area are being explored.

The Waikawa Hardstand and Haulout operation consolidated further, with hardstand bookings increasing a further 35% over the prior year. Several hardstand sites previously leased to a specific business were returned to the centralised operation, consistent with the strategic intentions for the operation.



An aerial photograph of Waikawa Marina, showing numerous white motorboats and sailboats docked at wooden piers. The marina is situated in a bay with steep, green hills in the background. A paved road and parking area are visible on the right side of the marina.

## Resource consent achieved for extension of Waikawa Marina

During the year, final planning processes were worked through to seek resource consent for extension of Waikawa Marina in the area of Marina Zone to the immediate Northwest of the existing marina. Achievement of consent in June marks the conclusion of a decade of planning activity and engagement with iwi, immediate neighbours of the marina, many other stakeholder groups and the wider public. We acknowledge the time, effort, consideration and support of all of these groups and individuals, and look forward to delivering increased berth capacity at Waikawa within the integrity of the many consultation outcomes agreed through the planning process.

The proposal is for a high quality marina facility providing 240 berths for vessels of up to 30 metres in length. Detailed engineering design is progressing at the time of writing in anticipation of a start to construction during the 2019 calendar year, contingent on completion of a successful business case and availability of funding.





## DEVELOPMENT AND PLANNING

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

This year's major integrated property development investment has continued a focus on delivering new commercial properties for aquaculture industry tenants in Havelock Marina, consolidation of the Waikawa Marine Centre precinct through purchase of an existing tenant's building assets, and delivery of twelve new boatsheds at Waikawa.

The long-awaited achievement of resource consent for extension of Waikawa Marina now sees this project proceed to detailed design and costing. This information will inform development of a comprehensive business case, contingent upon which physical construction may proceed as early as the 2019 calendar year.

During the latter part of the year our conversations with Cook Strait ferry operators regarding future fleet configuration and operational needs resumed, following a twelve-month pause due to disruption of the Kaikoura earthquake. Reconfiguration of the ferry berths, terminal and marshalling areas to meet future needs has the potential to see significant changes through the ferry precinct.

We continue to explore options for development of a dry-dock facility in Shakespeare Bay. Work undertaken by several interested parties confirms cross-industry aspiration for a facility to be located in New Zealand, sufficient to take vessels at least as large as existing interisland ferries, the naval fleet, and the majority of the coastal shipping fleet. Picton has a number of natural advantages for such a development, including water depth and central location. A non-negotiable requirement for such a project, if it is to be supported by Port Marlborough, will be fully assuring environmental performance during construction and ongoing operation. We believe there is real merit in this project and will work hard to deliver a positive outcome on this.

At a headline planning level, Port Marlborough has taken an active and detailed role in the submissions and hearing process for the Marlborough Environment Plan. Our priority in this process is to ensure that the Plan appropriately provides for the existing and future needs of the Port, marinas and our customers within a strong environmental management framework.





## Focus on Havelock

The Company's holdings at Havelock provide comprehensive port and marina facilities to enable and support the needs commercial and recreational users of Pelorus Sound and its hinterland.

Growing demand for land on the southern reclamation over the last several years has increased to the point where close to 80% of the reclamation area is either developed, under development, or under negotiation with potential tenants.

With growth in activity, Port Marlborough continues to invest in improved environmental outcomes at Havelock. Priority projects undertaken in partnership with clients have included ongoing sealing of yard areas to more appropriately manage discharges and biosecurity while increasing workplace safety. The Company is working actively with tenants and with Marlborough District Council to improve efficiencies in waste management and water usage, with specific projects continuing through into the next financial year.

Port Marlborough now has 23 commercial tenants at Havelock, supporting existing innovative value-add ventures that collectively employ in the order of 430 people across the Company's Havelock precinct. Recent and ongoing developments have largely been in support of existing and new value-add aquaculture businesses focussed on streamlining processes from ship to shore, including Sanford, Clearwater Mussels, and Kono.

Havelock is in many ways the birthplace of New Zealand aquaculture; and the continued innovation and enterprise built on that heritage bodes well for the future of this important Marlborough community.



## COMMUNITY & ENVIRONMENT

We are fortunate to operate in the special environment and communities of the Marlborough Sounds. We aspire to being a leader of environmental care and management throughout our day to day operations, development planning, and wider community partnerships.







Port Marlborough supports environmental preservation and restoration initiatives within Picton, Havelock and the wider Marlborough Sounds communities. We continue to be humbled by the achievements of the extensive volunteer effort that these groups represent. Alongside our Foundation Partner role with Kaipupu Wildlife Sanctuary, we provide in-kind sponsorship to Picton Dawn Chorus, supporting their ambition to make Picton New Zealand's first predator-free town. In support of this initiative, existing predator trapping activities in the operational port and marina precincts will be scaled up and extended in the coming year to ensure comprehensive predator management across all of the Company's land holdings.

Port Marlborough's ongoing sponsorship of the Marine category of the Cawthron Marlborough Environment Awards is set to continue with the launch of the 2019 awards early in the new financial year.

Port Marlborough regularly engages with many community groups including Picton Forum, Pelorus Promotions, Picton Business Group and the Smart and Connected groups in Havelock and Picton.

The company is a committed sponsor of local festivals and events including the Picton Maritime Festival, Picton Christmas Parade and the Picton New Year's Eve party and fireworks. This year we were headline sponsors of the inaugural month-long Picton Matariki festival, celebrating Maori New Year and debuting as Marlborough's first waste-free sustainable event.

Marlborough Sounds Marinas is long-time sponsor of the Havelock Mussel Festival and is the platinum sponsor of the annual Marina2Marina fun run event in Picton.

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



# THE BOARD OF DIRECTORS

## Ed Johnson (Chairman)

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

Ed Johnson was appointed to the Board in December 2007 and has been Chairman since December 2008. He is also currently Chairman of Goldpine Industries Ltd, and a director of Port Otago Ltd and ECL Group Ltd. He retired from Shell New Zealand as Chairman and Chief Financial Officer in 2002 following a 20+ year stint with various roles based in the UK, Australia and New Zealand.

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



## Keith Taylor

*BSc, BCA, FIA, CFInstD, ONZM*

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



## Martin Fletcher

*CA, MInstD*

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



## Ian Boyd

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

Ian Boyd was appointed to the Board in December 2015. Ian is the CEO of Ontario Teachers Pension Plan NZ Forest Investments Limited (OTPP NZ) where he has responsibility for forestry and agricultural investments. He has held senior executive roles across the primary sector in New Zealand, including CEO of Te Arawa Group Holdings Ltd, Joint CE and COO of Fletcher Challenge Forests, MD of Wrightson Limited, and GM of Zespri Global Supply. Ian spent over four years living in Chile as CEO managing the Fletcher Challenge forestry and pulp and paper investments in Chile and Brazil. He is Chairman of AustOn Corporation Pty Ltd, a Director of Te Arawa Group Holdings Ltd, and a trustee of the Wood Industry Development and Education Trust. Ian has a Bachelor of Forestry Science and has attended executive programs at Stanford and Wharton Universities. He resides in Auckland.



## Mathew Kerr

*B.B.S. MInstD, CA*

Mathew Kerr, a qualified Chartered Accountant and Senior Partner, WK Advisors and Accountants, Blenheim, was appointed to the Board in 2014. He is a Trustee and the Treasurer of Marlborough Stadium Trust, Trustee of the Marlborough Hospice Foundation and Director of several private companies. Mathew is an active user of the Marlborough Sounds being a keen sailor, diver and hopeful fisherman.



## Peter Drummond

*MNZM, CFInstD*

Peter Drummond was appointed to the Board in 2014. He is an experienced director with extensive international business management and marketing expertise and has served on a wide range of community organisations. Peter is an Accredited/Chartered Fellow of the Institute of Directors. He is currently Chairman of Appliance Connection Ltd, Watercare Harbour Clean-Up Trust, Medical Missions South Pacific, Whip Around Ltd and he is a Director of NARTA New Zealand Ltd, NARTA International Pty Ltd, Ngati Awa Group Holdings Limited; and is a Board member of Fire Emergency New Zealand Ltd.



## Andrew Besley

*MPM, BA (Hons), Dip Acc, Dip Tchg, MInstD*

Andrew Besley was appointed to the Board in July 2016. Andrew is currently a project manager and management consultant. Previously he was Chief Executive Officer of the Marlborough District Council for 15 years, retiring in December 2015. Andrew has tertiary qualifications in History, Teaching, Accounting and Management. He lives close to Blenheim.







Anouk Euzeby

Troy Tane

Rhys Welbourn

Rose Prendeville

Gavin Beattie

Dean Craighead

## SENIOR LEADERSHIP TEAM

### Rhys Welbourn

#### Chief Executive

*MBA (Cran.), BA (Hons), Dip Eng. (Civil), MInstD*

Rhys has over ten years' experience in the port and marine infrastructure sector in NZ. His background in business management and civil engineering means he is well placed to understand the drivers behind investment decisions, the importance of providing quality infrastructure and the need for excellent service delivery for port and marina users.

Rhys has a strong commitment to health and safety, the environment, customers and the wider community, seeing these as cornerstones to successful and sustainable business leadership. Rhys's focus is in creating solutions for customers that benefit their businesses and link with the Port's wider goals.

### Troy Tane

#### Port Manager

Troy joined Port Marlborough initially as Shipping Operations Manager in 2012, becoming Port Manager in 2015. Troy has a comprehensive Port Operations background which began in the late 1980s and has included roles managing and leading marshalling, stevedoring and logistics company operations at Port of Tauranga and Napier Port. Troy leads the Port Services and Marine teams, and is responsible for all shipping, marine services and on-shore services within the Port.

### Anouk Euzeby

#### Commercial Manager

*MBA, BA (Hons), IUT (Dip)*

Anouk joined the Port in 2010 as Business Analyst and has comprehensive understanding of our business operations and their commercial context. Prior to immigrating to New Zealand, Anouk held marketing and operational management roles in France and the UK with General Electric in the financial insurance industry. Anouk is primarily responsible for growing revenue through identifying and realising commercial opportunities across the business with a strong focus on developing customer relationships, marketing and pricing. Anouk leads the property and marina operational portfolios.

### Dean Craighead

#### Chief Financial Officer

*BCom CA*

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

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

### Rose Prendeville

#### Capabilities Manager

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

Rose has a comprehensive business background spanning production and process engineering, production management, marketing, administration and project management. Joining the Port in 2003, Rose was Manager Projects from 2009 and was appointed to the new role of Capabilities Manager in 2018 to support on-going identification, growth and development of cross-organisation capabilities. Specific responsibilities include leadership, implementation and delivery of quality systems and processes in key delivery areas of environment, RMA planning, health and safety, risk management, strategic planning and programme management.

### Gavin Beattie

#### Infrastructure Manager

*BE(Hons) MEngNZ CEngNZ*

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



## Statutory Information

### Directors' Report

The Directors of Port Marlborough New Zealand Limited are pleased to present to the Shareholder their Annual Report and financial statements for the year ended 30 June 2018.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which present fairly in all material aspects the financial position of Port Marlborough New Zealand Limited and its subsidiaries as at 30 June 2018 and the results of the Group's operations and cash flows for the year ended on that date.

### Auditors

Mike Hoshek for Deloitte Limited, acting as agent for the Office of the Auditor General, is the auditor of Port Marlborough New Zealand Limited and its subsidiaries for the year ended 30 June 2018.

### Employee Remuneration - Parent Company

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

Remuneration	Number of Employees	
	2018	2017
\$100,000 – 110,000	4	4
\$110,000 – 120,000	4	2
\$120,000 – 130,000	-	1
\$130,000 – 140,000	2	-
\$150,000 – 160,000	-	1
\$160,000 – 170,000	-	1
\$170,000 – 180,000	2	-
\$180,000 – 190,000	-	1
\$200,000 – 210,000	1	1
\$210,000 – 220,000	1	1
\$240,000 – 250,000	1	-
\$270,000 – 280,000	1	-
\$370,000 – 380,000	-	1

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

### Interests Register

#### Directors' Remuneration and Benefits

The remuneration paid to non-executive Directors during the year ended 30 June 2018 was: E G Johnson \$60,000. Messrs A R Besley, I R Boyd, P S Drummond, M F Fletcher, M B J Kerr and K B Taylor \$30,000 each.

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

### Directors' and Officers' Liability Insurance

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

### Directors' Interests in Contracts

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

Members Interests:

#### Ed Johnson

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

#### Ian Boyd

- OTPP NZ Forest Investments Limited, CEO
- Aroona Holdings Pty Limited (and subsidiaries), Director
- Te Arawa Group Holdings Limited, Director
- AustOn Corporation Pty Ltd, Director
- Busselton Farms Pty Ltd, Director
- Wood Industry Development and Education Trust, Trustee

#### Peter Drummond

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

#### Martin Fletcher

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



**Matt Kerr**

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

**Keith Taylor**

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

**Directors' Loans**

There were no loans by the Company to Directors.

**Use of Company Information**

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

**Statement of Responsibility**

The Directors are responsible for ensuring that the financial statements present fairly in all material aspects the financial position of the Group as at 30 June 2018, and its financial performance and cash flows for the year ended on that date.

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

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

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



## Corporate Governance Statement

### Corporate Governance Statement

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

### Role of the Board of Directors

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

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

### Board Operations and Membership

The Board comprises seven non-executive Directors: a Chairman and six Directors. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are completed to ensure the best possible management of resources. Directors' qualifications and details are set out on page 26 of this report.

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

### Board Committees

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

### Statement of Corporate Intent

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

### Risk Management

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

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

### Directors' Approval of Financial Statements

For the Year Ended 30 June 2018.

#### Approval by Directors

The Directors are pleased to present the Financial Statements of Port Marlborough New Zealand Limited for the year ended 30 June 2018 on pages 33 to 53.

### Authorisation for Issue

The Board of Directors authorised the issue of these Financial Statements on 21 September 2018.



**EG Johnson** Chairman

**MF Fletcher** Director

*For and on behalf of the Board of Directors.*





## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF PORT MARLBOROUGH NEW ZEALAND LIMITED GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Port Marlborough New Zealand Limited group (the Group). The Auditor-General has appointed me, Mike Hoshek, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Group on his behalf.

#### Opinion

We have audited the financial statements of the Group on pages 33 to 53, that comprise the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

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

- Present fairly, in all material respects:
  - its financial position as at 30 June 2018; and
  - its financial performance and cash flows for the year then ended; and
- Comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards, Reduced Disclosure Regime.

Our audit was completed on 21 September 2018. This is the date at which our opinion is expressed.

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

#### Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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





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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

#### **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Independence**

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

Other than in our capacity as auditor and the provision of audit advisory services, we have no relationship with or interests in the Group. These services have not impaired our independence as auditor of the Group.

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



## Consolidated Income Statement

For the Financial Year Ended 30 June 2018

	Note	2018 \$'000	Group 2017 \$'000
Revenue	3.1	28,610	27,301
Other income		77	96
Investment property revaluation	9	2,913	(751)
Operations and maintenance	3.3	(7,791)	(7,194)
Employee benefits expense	22.6	(6,512)	(6,239)
Depreciation, impairment and amortisation expense	3.2	(2,925)	(2,796)
Finance costs	3.2	(1,384)	(346)
Subvention payments		(239)	(277)
<b>Profit before income tax expense</b>		<b>12,749</b>	<b>9,794</b>
Income tax expense	4.1	(2,261)	(2,588)
<b>Profit for the year</b>		<b>10,488</b>	<b>7,206</b>

## Consolidated Statement of Comprehensive Income

For the Financial Year Ended 30 June 2018

	Note	2018 \$'000	Group 2017 \$'000
<b>Profit for the year</b>		<b>10,488</b>	<b>7,206</b>
<b>Other comprehensive income, net of tax</b>			
Items that will never be classified to profit or loss:			
(Loss)/gain on revaluation of property, plant and equipment	8	(305)	(1,582)
Income tax relating to revaluation of property, plant and equipment	4.3	85	535
<b>Total comprehensive income for the year, net of tax</b>		<b>10,268</b>	<b>6,159</b>
<b>Comprehensive income attributable to members of the parent entity</b>		<b>10,268</b>	<b>6,159</b>

## Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2018

	Note	2018 \$'000	Group 2017 \$'000
Equity at beginning of the year		124,608	120,949
Total comprehensive income for the year, net of tax		10,268	6,159
Dividends	17	(3,125)	(2,500)
<b>Balance at end of the year</b>		<b>131,751</b>	<b>124,608</b>

Notes to the financial statements are included on pages 36 to 53.



## Consolidated Statement of Financial Position

As of 30 June 2018

		Group	
	Notes	2018 \$'000	2017 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	21.2	1,171	2,825
Trade and other receivables	5	2,042	1,709
Inventories	6	300	296
<b>Total current assets</b>		<b>3,513</b>	<b>4,830</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	87,108	88,359
Investment property	9	84,744	77,150
Other intangible assets	10	528	614
<b>Total non-current assets</b>		<b>172,380</b>	<b>166,123</b>
<b>Total assets</b>		<b>175,893</b>	<b>170,953</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	2,606	2,371
Current tax liabilities	4.2	12	190
Other financial liabilities - Derivatives	13	128	-
<b>Total current liabilities</b>		<b>2,746</b>	<b>2,561</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings from MDC Holdings Limited	12	27,500	29,500
Deferred tax liabilities	4.3	12,229	12,617
Other financial liabilities - Derivatives	13	1,667	1,667
<b>Total non-current liabilities</b>		<b>41,396</b>	<b>43,784</b>
<b>Total liabilities</b>		<b>44,142</b>	<b>46,345</b>
<b>Net assets</b>		<b>131,751</b>	<b>124,608</b>
<b>EQUITY</b>			
Capital and other equity instruments	14	13,588	13,588
Capital reserve	15.1	2,693	2,693
Revaluation reserve	15.2	44,787	45,007
Retained earnings	16	70,683	63,320
<b>Total equity</b>		<b>131,751</b>	<b>124,608</b>

E G Johnson, Chairman, M F Fletcher, Director.

For and on behalf of the Board of Directors.

Notes to the financial statements are included on pages 36 to 53.



## Consolidated Cash Flow Statement

For the Financial Year Ended 30 June 2018

		Group	
	Notes	2018 \$'000	2017 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		28,390	27,924
Interest received		30	25
Payments to suppliers and employees		(14,573)	(13,379)
Interest and other costs of finance paid		(1,260)	(1,554)
Subvention payments		(277)	(326)
Income tax paid (Net of refunds)		(2,742)	(1,732)
Net cash provided by operating activities	21.1	9,568	10,958
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		30	27
Payment for property, plant and equipment		(1,873)	(3,362)
Payment for investment property		(4,247)	(627)
Payment for intangible assets		(7)	-
Net cash used in investing activities		(6,097)	(3,962)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		(2,000)	(2,000)
Dividends paid		(3,125)	(2,500)
Net cash used in financing activities		(5,125)	(4,500)
Net increase/(decrease) in cash and cash equivalents		(1,654)	2,496
Cash and cash equivalents at the beginning of the financial year		2,825	329
Cash and cash equivalents at the end of the financial year	21.2	1,171	2,825

Notes to the financial statements are included on pages 36 to 53.



# Notes to the Financial Statements

For the Financial Year Ended 30 June, 2018

## 1. COMPANY INFORMATION

The Consolidated Financial Statements comprise the activities of Port Marlborough New Zealand Limited (PMNZL) and the other entities in which the Company has a controlling interest. The Consolidated Financial Statements presented are for the Group as at, and for the year ended 30 June 2018.

The Group consists of:

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Statement for the year ended 30 June 2018, and the comparative information presented in these Financial Statements for the year ended 30 June 2017:

### 2.1. Statement of compliance

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("FRS44 GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") - Tier 2, and other applicable financial reporting standards as appropriate for profit-oriented entities that apply the reduced disclosure regime (RDR). The Group qualifies for NZ IFRS (RDR) as it does not have public accountability and is not a large for profit public sector entity. The Group has elected to apply NZ IFRS (RDR) and has applied disclosure concessions with the exception of the cash flow reconciliation under FRS 44/NZ IAS 7, and the prior year asset reconciliations under NZ IAS 16.

### 2.2. Basis of preparation

The presentation currency is New Zealand Dollars (\$). All financial information has been rounded to the nearest thousand, unless otherwise stated. The Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity are stated exclusive of GST. All items in the balance sheet are stated exclusive of GST with the exception of trade receivables and trade payables, which include GST.

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

### *Fair Value Measure*

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

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

The different levels have been defined as follows:

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



### 2.3. Accounting estimates and judgements

The preparation of Financial Statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

- Asset revaluation (notes 8 and 9)
- Financial instruments (note 13)

### 2.4. Impairment

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

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

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

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

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

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

### 2.5. New standards adopted

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

### 2.6. New standards and interpretations issued but not yet effective

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

- NZ IFRS 9 Financial Instruments becomes effective for annual periods commencing on or after 1 January 2018 and will be adopted by the Group on 1 July 2018. The primary change relates to provisioning for potential future credit losses on financial assets; Group is continuing to analyse the impact of these changes which are not currently considered likely to have any major impact on the Group's current accounting treatment.
- NZ IFRS 15 Revenue from Contracts with Customers was issued in 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under NZ IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Apart from providing more extensive disclosures on the Group's revenue transactions, the directors do not anticipate that the application of NZ IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.
- NZ IFRS 16 Leases was issued 11 February 2016 and will primarily affect the accounting treatment of leases by non-cancellable lessees and will result in the recognition of almost all leases, subject to limited exceptions for short term leases and leases of low value assets, on the balance sheet, as a "right to use" asset. A liability will also be recorded to reflect the obligation to pay lease costs in the future. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The standard will be first applicable for the year commencing 1 July 2019 and the Group is continuing to analyse the impact of these changes which are not currently considered likely to have any major impact on the financial position and/or financial performance of the Group. Currently the Group in its capacity as lessee has no material long term rental commitments.



## 2.7. Accounting policies

### Other

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

## 3. PROFIT FROM OPERATIONS

### 3.1. Revenue

	Group	
Revenue from continuing operations consisted of the following items:	2018 \$'000	2017 \$'000
Revenue from the rendering of services	18,439	17,607
Operating lease rental revenue: Investment properties	10,141	9,669
Interest revenue: Bank deposits / IRD use of money	30	25
	28,610	27,301

### Revenue recognition policies

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

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

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

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

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

### 3.2. Expenses

		Group	
Profit before income tax has been arrived at after charging the following expenses to operations:	Notes	2018 \$'000	2017 \$'000
<b>Interest costs</b>			
Interest on borrowings and swaps		1,252	1,523
Other		5	-
<b>Other finance costs</b>			
(Gain)/losses on derivative financial instruments		127	(1,177)
<b>Total finance costs</b>		<b>1,384</b>	<b>346</b>
<b>Depreciation, impairment and amortisation</b>			
Depreciation of non-current assets	8	2,832	2,685
Amortisation of non-current assets	10	93	111
<b>Total depreciation, impairment and amortisation</b>		<b>2,925</b>	<b>2,796</b>
<b>Other expenditure disclosures</b>			
Auditor remuneration			
– Audit fees		63	68
– Other services		6	-
Donations and sponsorship		60	60
Employer contribution to superannuation		270	259
Operating lease rental properties		24	24
Expenses from investment properties generating income		3,733	3,273

**Interest on borrowings and swaps policies**

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

Interest paid is classified as an expense consistently with the Consolidated Statement of Financial Position classification of the related debt. During the year the Group and the Company interest rates ranged between 1.99% and 6.65% (2017: 2.07% and 6.53%).

**3.3. Operations and maintenance**

	Group	
	2018 \$'000	2017 \$'000
(Gain)/loss on disposal of property, plant and equipment	(44)	-

**4. TAXATION****Income tax policies**

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

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

**4.1. Reconciliation of income tax**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Financial Statements as follows:

	Notes	Group	
		2018 \$'000	2017 \$'000
<b>Profit before income tax expense</b>		<b>12,749</b>	<b>9,794</b>
<b>Tax at current rate 28%</b>		<b>3,570</b>	<b>2,742</b>
<b>Plus/(less) tax adjustments:</b>			
Non-deductible expenses		2	2
Non-taxable income		(1,139)	44
Group loss available for offset		(172)	(200)
<b>Income tax expense on the Income Statement, comprising:</b>		<b>2,261</b>	<b>2,588</b>
Current tax expense		2,564	2,351
Deferred tax expense/(credit)		(303)	237
		<b>2,261</b>	<b>2,588</b>



4.2. Current tax asset/(liability)	Group	
	2018 \$'000	2017 \$'000
Balance at beginning of the year	(190)	429
Current tax expense	(2,564)	(2,351)
Income tax paid (net of refunds)	2,742	1,732
Balance at end of the year	(12)	(190)

#### Current tax policies

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

#### 4.3. Deferred tax liability

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

Deferred tax liability/(asset)	Derivative financial instruments \$'000	Property, plant and equipment \$'000	Investment property \$'000	Intangible assets \$'000	Provisions \$'000	Totals \$'000
Balance at 30 June 2016	(797)	11,587	2,172	144	(191)	12,915
Recognised in:						
Profit or loss	330	(207)	113	24	(23)	237
Other comprehensive income	-	(535)	-	-	-	(535)
Balance at 30 June 2017	(467)	10,845	2,285	168	(214)	12,617
Recognised in:						
Profit or loss	(36)	(365)	117	(23)	4	(303)
Other comprehensive income	-	(85)	-	-	-	(85)
Balance at 30 June 2018	(503)	10,395	2,402	145	(210)	12,229

#### Deferred tax policies

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

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

**4.4. Imputation credit account balances**

	Group	
	2018 \$'000	2017 \$'000
Available directly and indirectly to shareholders of the parent company, through Parent company	12,874	11,337

**5. TRADE AND OTHER RECEIVABLES**

	Group	
	2018 \$'000	2017 \$'000
Current	1,757	1,309
Past due 1-30 days	239	393
Past due 31-60 days	37	25
Past due greater than 60 days	59	32
	2,092	1,759
Less provision for doubtful debts	(50)	(50)
Total trade and other receivables	2,042	1,709

**Trade and other receivables policies**

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

**6. INVENTORIES**

	Group	
	2018 \$'000	2017 \$'000
Goods held for maintenance: <b>At cost</b>	300	296

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

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

**7. SUBSIDIARIES**

The Company has the following subsidiaries:

	Country of Incorporation	Nature of Business	2018 %	2017 %
Waikawa Marina Trustee Limited	New Zealand	Trustee	100	100
PMNZ Marina Holdings Limited	New Zealand	Non Trading	100	100

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



## 8. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land at fair value \$'000	Improvements at fair value less depreciation \$'000	Buildings at fair value less depreciation \$'000	Wharf infrastructure at fair value less depreciation \$'000	Plant, equipment furniture and vehicles at cost \$'000	Work in progress \$'000	Total \$'000
<b>Gross carrying amount</b>							
<b>Balance 30 June 2016</b>	<b>19,451</b>	<b>12,476</b>	<b>10,197</b>	<b>45,742</b>	<b>8,617</b>	<b>338</b>	<b>96,821</b>
Additions	-	-	-	140	635	2,669	3,444
Disposals	-	-	-	(67)	(82)	-	(149)
Transfers from capital works in progress	-	34	23	2,408	243	(2,708)	-
Reclassification	-	634	8	5	(647)	-	-
Net revaluation (decrement)	-	-	-	(1,582)	-	-	(1,582)
Transfers to investment property	-	(9)	-	(2,555)	(16)	-	(2,580)
<b>Balance 30 June 2017</b>	<b>19,451</b>	<b>13,135</b>	<b>10,228</b>	<b>44,091</b>	<b>8,750</b>	<b>299</b>	<b>95,954</b>
Additions	-	-	-	-	202	1,753	1,955
Disposals	-	-	29	-	(684)	-	(665)
Transfers from capital works in progress	-	285	382	35	1,017	(1,719)	-
Reclassification	-	(17)	(1)	4	14	-	-
Net revaluation (decrement)	-	-	(305)	-	-	-	(305)
Transfers to investment property	-	-	-	-	-	(81)	(81)
<b>Balance 30 June 2018</b>	<b>19,451</b>	<b>13,403</b>	<b>10,333</b>	<b>44,130</b>	<b>9,299</b>	<b>252</b>	<b>96,868</b>

GROUP	Freehold land at fair value \$'000	Improvements at fair value less depreciation \$'000	Buildings at fair value less depreciation \$'000	Wharf infrastructure at fair value less depreciation \$'000	Plant, Equipment furniture and vehicles at cost \$'000	Work in progress \$'000	Total \$'000
<b>Accumulated depreciation/amortisation and impairment</b>							
<b>Balance 30 June 2016</b>	<b>174</b>	<b>1</b>	<b>-</b>	<b>533</b>	<b>4,585</b>	<b>-</b>	<b>5,293</b>
Disposals	-	-	-	(67)	(75)	-	(142)
Depreciation expense - Note 3.2	-	499	267	1,369	550	-	2,685
Transfers investment property	-	-	-	(229)	(12)	-	(241)
<b>Balance 30 June 2017</b>	<b>174</b>	<b>500</b>	<b>267</b>	<b>1,606</b>	<b>5,048</b>	<b>-</b>	<b>7,595</b>
Disposals	-	-	(10)	-	(657)	-	(667)
Depreciation expense - Note 3.2	-	500	266	1,424	642	-	2,832
Transfers investment property	-	-	-	-	-	-	-
<b>Balance 30 June 2018</b>	<b>174</b>	<b>1,000</b>	<b>523</b>	<b>3,030</b>	<b>5,033</b>	<b>-</b>	<b>9,760</b>
<b>Net Book Value</b>							
Restated as at 30 June 2017	19,277	12,635	9,961	42,485	3,702	299	88,359
As at 30 June 2018	19,277	12,403	9,810	41,100	4,266	252	87,108

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

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

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

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

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

**Improvements** – Properties for production, rental or administrative purposes, or for purposes not yet determined, are carried at fair value.

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

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

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

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

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

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

### 8.1.1. Valuation basis

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

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

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

The directors have determined that there have been no significant movements in markets and key assumptions since the last valuation, so consider the carrying value to approximate fair value.



### 8.1.2. Fair value model

Assets have been categorised as specialised or non-specialised:

#### *Specialised*

In general terms these assets are:

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

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

#### *Non-specialised*

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

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

### 8.1.3. Cost model

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

	Group	
	2018 \$'000	2017 \$'000
Freehold land	5,706	5,706
Buildings	4,259	3,938
Improvements	7,399	7,580
Wharf infrastructure	17,464	17,981

## 9. INVESTMENT PROPERTY

		Group	
	Notes	2018 \$'000	2017 \$'000
Balance at beginning of financial year		77,150	75,017
Additions		4,600	544
Transfers property, plant and equipment	8	81	2,340
Net gain/(loss) from fair value adjustments		2,913	(751)
<b>Balance at end of financial year</b>		<b>84,744</b>	<b>77,150</b>

### 9.1. Investment property policies

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

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

Gains or losses arising from changes in the fair value of investment property are included in the Consolidated Income Statement for the period in which they arise.

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

## 9.2. Valuation basis

Investment properties were valued on 30 June 2018 by Crichton Anderson Property & Infrastructure Limited t/a Colliers International and 2017 by Colliers International, independent registered valuers and associates of the NZ Institute of Valuers. Board policy is to rotate valuers on a three to four year cycle basis.

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

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

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

## 9.3. Fair value measurement of group investment properties

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

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

- Comparable Sales approach
- Depreciated replacement cost value (DRC)
- Investment value – Rental capitalisation
- Investment value – Discounted cashflow

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

### Discounted Cashflow Summary (Rates)

Property	2018	2017
Picton marina	7.50%	8.00%
Waikawa marina	8.50%	8.50%
Havelock marina	9.00%	9.00%

The variations in the discount rate adopted reflect the investment strength of each of the respective marinas. In the case of rental capitalisation for commercial property, rates adopted ranged between 7.50% and 9.00%. (2017: 8.00% and 9.00%). Rates are post tax.



**10. OTHER INTANGIBLE ASSETS**

	<b>Group</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Software gross carrying amount</b>		
Balance at beginning of financial year	1,217	1,217
Additions	7	-
Disposals	(189)	-
<b>Balance at end of financial year</b>	<b>1,035</b>	<b>1,217</b>
<b>Software accumulated amortisation &amp; impairment</b>		
Balance at beginning of financial year	603	492
Amortisation (i)	93	111
Disposals	(189)	-
<b>Balance at end of financial year</b>	<b>507</b>	<b>603</b>
<b>Software net book value at end of financial year</b>	<b>528</b>	<b>614</b>

(i) Amortisation expense is included in the line item 'depreciation, impairment and amortisation expense' in the Consolidated Income Statement.

***Intangible assets policies***

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

**11. TRADE AND OTHER PAYABLES**

	<b>Group</b>	
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Trade creditors	821	927
Property, plant and equipment	522	88
Employee expenses	904	955
Related parties		
– Subvention payments	239	277
– Interest	120	124
	<b>2,606</b>	<b>2,371</b>

***Trade and other payables policies***

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

***Employee expenses***

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

**12. BORROWINGS**

	Group	
	2018 \$'000	2017 \$'000
<b>Borrowings from MDC Holdings Ltd (parent) secured – at amortised cost</b>	27,500	29,500
<b>Classified as:</b>		
Current	-	-
Non-current	27,500	29,500

**Loan maturities**

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

**Interest and security**

Term loans incurred an interest expense of \$1,252,334 (2017: \$1,522,538). Interest rates ranged between 1.99% and 6.65% (2017: 2.07% and 6.53%). A Negative Pledge Deed has been entered into with MDC Holdings Limited.

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

**13. DERIVATIVE FINANCIAL INSTRUMENTS****Interest rate swap contracts**

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

	Group	
	2018 \$'000	2017 \$'000
<b>Interest rate swap asset/(liability) at fair value</b>		
<b>Classified as:</b>		
Current	(128)	-
Non-current	(1,667)	(1,667)
<b>Net interest rate swap</b>	<b>(1,795)</b>	<b>(1,667)</b>

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

Notional Amount \$'000	Fair Value \$'000	Interest Rate %	Fixed Term remaining
4,000	(42)	3.930	1 July 2018 – 19 January 2019
7,000	(964)	5.210	1 July 2018 – 28 March 2024
5,000	(86)	4.150	1 July 2018 – 29 June 2019
-	(229)	3.770	29 June 2019 – 29 June 2024 (rollover)
5,000	(361)	4.910	1 July 2018 – 23 February 2021
-	(113)	3.730	23 February 2021 – 23 February 2025 (rollover)
<b>21,000</b>	<b>(1,795)</b>	Balance as at 30 June 2018	
<b>21,000</b>	<b>(1,667)</b>	Balance as at 30 June 2017	



**Derivatives policies**

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

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

**Fixed Rate Hedging Percentages (Maturity Profile)**

	Minimum Fixed Rate	Maximum Fixed Rate
0 to 2 years	40%	100%
2 years to 5 years	25%	80%
5 years to 10 years	0%	60%

**14. CAPITAL AND OTHER EQUITY INSTRUMENTS**

Group

	2018 \$'000	2017 \$'000
13,587,650 fully paid ordinary shares (2017: 13,587,650)	13,588	13,588
	13,588	13,588

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

**Equity instruments policies**

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

**15. RESERVES**

Group

15.1 Capital reserve	2018 \$'000	2017 \$'000
Balance at beginning of financial year	2,693	2,693
Balance at end of financial year	2,693	2,693

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

	Group	
	2018 \$'000	2017 \$'000
<b>15.2 Asset revaluation reserve</b>		
Balance at beginning of financial year	45,007	46,382
Revaluation (decrements)/increments	(305)	(1,582)
Deferred tax (note 4.3)	85	535
Transfer retained earnings (note 16)	-	(328)
Balance at end of financial year	44,787	45,007

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

	Group	
	2018 \$'000	2017 \$'000
<b>16. RETAINED EARNINGS</b>		
Balance at beginning of financial year	63,320	58,286
Profit attributable to members of the parent entity	10,488	7,206
Dividends paid (note 17)	(3,125)	(2,500)
Transfer from asset revaluation reserve (note 15.2)	-	328
Balance at end of financial year	70,683	63,320

	2018		2017	
	Cents per share	TOTAL \$000	Cents per share	TOTAL \$000
<b>17. DIVIDENDS</b>				
Recognised amounts				
Fully paid ordinary shares	23.0	3,125	18.4	2,500

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

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

	Group	
	2018 \$'000	2017 \$'000
<b>18. COMMITMENTS FOR EXPENDITURE</b>		
<b>Capital expenditure commitments</b>		
Property, plant and equipment	2,956	731
	2,956	731



## 19. LEASES

### 19.1. The Group as Lessee

There were no rentals payable under operating leases.

### 19.2. The Group as Lessor

	Group	
<i>Non-cancellable operating lease payments</i>	2018 \$'000	2017 \$'000
Not longer than 1 year	9,290	4,207
Longer than 1 year and not longer than 5 years	19,530	10,794
Longer than 5 years	10,596	9,545
	39,416	24,546

#### *Leasing arrangements and policies*

Operating leases relate to rental property owned by the consolidated entity with lease terms of up to 30 years, with provision for renewal. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. Rentals income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

## 20. CONTINGENT ASSETS AND LIABILITIES

	Group	
	2018 \$'000	2017 \$'000
	-	-

#### *2018 Group and Parent Contingent assets*

There are no contingent assets (2017: Nil)

#### *2018 Group and Parent Contingent liabilities*

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

## 21. STATEMENT OF CASH FLOWS

### Statement of cash flows policies

#### Operating activities

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

#### Investing activities

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

#### Financing activities

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

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

		Group	
	Note	2018 \$'000	2017 \$'000
Profit after tax for the period		10,488	7,206
Loss/(gain) on sale or disposal of non-current assets		(42)	(20)
Loss/(gain) on revaluation of investment property	9	(2,913)	751
Gain/(loss) on revaluation of derivative instruments	3.2	127	(1,177)
Depreciation, impairment and amortisation of non-current assets	3.2	2,925	2,796
Increase/(decrease) in deferred tax balances	4.3	(303)	237
Changes in net assets			
(Increase)/decrease in assets:			
Current receivables		(333)	460
Current inventories		(4)	(27)
Increase/(decrease) in liabilities:			
Current payables		235	113
Less investment activities included in payables		(434)	-
Current tax		(178)	619
Net cash from operating activities		9,568	10,958

### 21.2. Cash and cash equivalents

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

	Group	
	2018 \$'000	2017 \$'000
Cash and cash equivalents	1,171	2,825

Included in this balance are \$45,920 (2017: nil) of funds held on trust for contractors retention purposes.

#### Cash and cash equivalents policies

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

### 21.3. Cash balances not available for use

Cash balances not available for use Nil (2017: Nil).



## 22. RELATED PARTY DISCLOSURES

### 22.1. Parent entities

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

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

#### Transactions involving Parent entities

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

	Group	
	2018 \$'000	2017 \$'000
<b>MDC Holdings Limited</b>		
Loan finance costs *	(1,252)	(1,523)
Subvention payments **	(277)	(326)
Derivative gain/(losses)	(128)	1,177
Dividends paid	(3,125)	(2,500)
Other Services	(1)	-
<b>Marlborough District Council</b>		
Services provided	53	53
Harbour and navigational levies	(430)	(430)
Rates and other services	(799)	(795)
<b>Marlborough Airport Limited</b>		
Other Services	(2)	(2)

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

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

### 22.2. Year end

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

	Group	
	2018 \$'000	2017 \$'000
<b>MDC Holdings Limited</b>		
Loan advance	(27,500)	(29,500)
Derivative	(1,795)	(1,667)
Interest	(120)	(124)
Subvention payment	(239)	(277)
<b>Marlborough District Council</b>		
Receivables	-	-
Payables	-	-

**22.3. Subsidiaries**

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

During the current and previous financial year, Port Marlborough New Zealand Limited provided accounting and administration services to its subsidiaries for no consideration (2017: Nil).

**22.4. Guarantees provided or received**

Nil.

**22.5. Directors**

Mr E G Johnson is a shareholder or Director of:

Fulton Hogan Limited who undertook construction work for the year totalling \$53,120 (2017: \$90,270).

Goldpine Group Ltd who provided fencing materials during the year totalling \$285 (2017: \$3,548).

ECL Group Ltd who provided fuel equipment and servicing during the year totalling \$17,301 (2017: \$14,007). \$522 (2017: \$455) was payable to ECL Group at 30 June.

Mr KB Taylor is a Director of:

Southern Cross Medical Care Society, whom the company paid \$64,855 for employee health insurance (2017: \$70,699).

Gough Group Ltd who provided machinery services during the year totalling \$6,029 (2017: \$4,214).

**22.6. Key Management Personnel Compensation**

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

	Group	
	2018 \$'000	2017 \$'000
Employee benefits	1,324	1,091
Directors fees	240	240

**22.7. Marina Facilities**

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

**23. EVENTS AFTER THE REPORTING PERIOD**

At the time of preparation of these Financial Statements there were no post balance date events requiring disclosure (2017: Nil).



## COMPANY DIRECTORY

### Board of Directors:

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

### Executive:

Rhys Welbourn	MBA, BA (Hons), PG Dip. GIS, Dip Eng (Civil)	Chief Executive
Dean Craighead	BCom, CA	Chief Financial Officer
Gavin Beattie	BE Mech (Hons) MIPENZ CPEng	Infrastructure Manager
Anouk Euzeby	MBA, BA (Hons), IUT (eqv Dip)	Commercial Manager
Rose Prendeville	B.Tech (I.E), Dip.PM (NZIM)	Capabilities Manager
Tory Tane		Port Manager

### Registered Office:

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 Telephone (03) 520 3399  
 Facsimile (03) 579 7695  
[www.portmarlborough.co.nz](http://www.portmarlborough.co.nz)

<b>Auditor</b>	Mike Hoshek for Deloitte Limited, on behalf of the Office of the Auditor General
<b>Legal Advisor</b>	Radich Law
<b>Banker</b>	Bank of New Zealand

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

*Mike Beech: Cover, Pages 6-7, 12-13, 16, 20-21*

*Dianna Robjohns: Pages 2-3, 4-5, 10-11, 18-19*

*Kaipupu Wildlife Sanctuary: Pages 24-25*

*Kono / Wakatū Incorporation: Pages 22-23*

*Rachel Russel Photography: Pages 8-9, 14-15, 17, 26-27*





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