



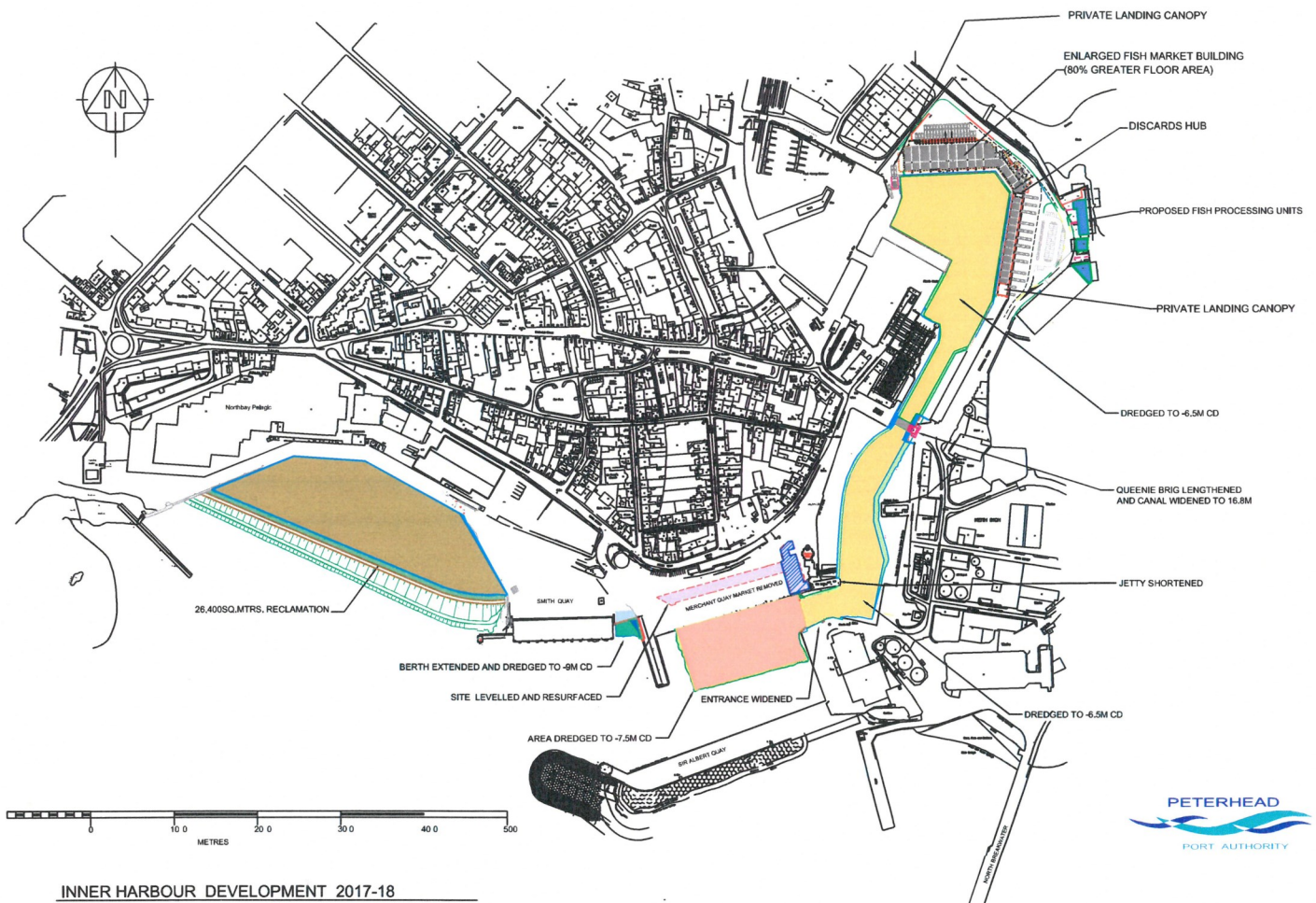
REPORT AND FINANCIAL STATEMENTS

For The Year Ended

31 December 2016



Developing the port to bring jobs and investment to Peterhead



£50m investment underway to secure Peterhead's position as the leading fishing port in Europe

Peterhead Port Authority, Harbour Office, West Pier, Peterhead, AB42 1DW

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PETERHEAD PORT AUTHORITY

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FOR THE YEAR ENDED 31 DECEMBER 2016**

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PETERHEAD PORT AUTHORITY

AUTHORITY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

MEMBERS:	Mr G Thain	- Convenor (from 1 January 2017)
		- Deputy Convenor (to 31 December 2016)
	Mr W J M R Mackie	- Deputy Convenor (from 1 January 2017)
		- Convenor (to 31 December 2016)
	Mr I Laidlaw	- Chief Executive (Appointed 1 June 2016)
	Mr J E Wallace	- Chief Executive (to 1 June 2016)
	Mr D Armstrong	
	Mr I Armstrong	
	Mr J G Buchan	
	Mr R A Buchan	
	Mr B Davidson	- Retired 31 December 2016
	Capt R Middleton	- Retired 31 December 2016
	Cllr A Gardiner	
	Mr M Skitmore	

Mr J E Wallace	- Appointed 1 January 2017
Mr J I Buchan	- Appointed 1 January 2017

PRINCIPAL OFFICERS:	Mr I Laidlaw	- Chief Executive (Appointed 1 June 2016)
	Mr J E Wallace	- Chief Executive (to 1 June 2016)
	Mr S Paterson	- Deputy Chief Executive & Chief Financial Officer
	Capt J Forman	- Harbour Master
	Mr D Buchan	- Senior Port Engineer

AUDITORS:	Bain Henry Reid
	Statutory Auditors
	Chartered Accountants
	28 Broad Street
	Peterhead
	Aberdeenshire
	AB42 1BY

BANKERS:	Santander UK Plc
	Bridle Road
	Bootle
	L30 4GB

SOLICITORS:	Mackinnons	Masson & Glennie
	14 Carden Place	Broad House
	Aberdeen	Broad Street
	AB10 1UR	Peterhead

TRADING REVIEW

The overall value of fish handled through Peterhead was a record £183 million. The value of white fish species was £107 million, an increase of 20% on the previous year. This was achieved through greater tonnage being landed and a higher average selling price. It is particularly encouraging to see increased confidence for the future returning to the fishing sector. There was also an increase in the value of pelagic landings from £37 million in 2015 to £67 million in 2016, partially due to an increase in the average price for herring and mackerel.

The reduction in the price of oil has resulted in a significant drop in vessel activity associated with this sector. Operators have deferred or cancelled development projects and focused efforts on reducing supply chain costs and improving efficiency. The decrease in 2016 was lower than expected and the downturn has stabilised and signs are appearing of a potential recovery.

Over the last two years the tonnage of commercial shipping using the port reduced from 12.0 million tonnes to 9.8 million tonnes.

FINANCIAL REVIEW

The results for the year and financial position of the Authority are shown on the attached Financial Statements.

Turnover was £10,841,876, up by 8.6% from 2015, mainly on account of the relatively buoyant fishing sector.

Cost of Sales reduced from £4.93 million in 2015 to £4.35 million in 2016. The main contributory factor was a reduction of £466,811 in maintenance costs.

Capital Expenditure during 2016 was mainly in relation to the Inner Harbour development. This included completing design, contract negotiations, preparatory work securing utilities and from October 2016 meeting the monthly project valuations. These costs totalled £5,168,854 during 2016, bringing total project expenditure up to £7,265,509.

INNER HARBOUR DEVELOPMENT

The vision of the ambitious Peterhead Port Masterplan is to position Peterhead as Scotland's Seafood Centre of Excellence, incorporating integrated fish landing, seafood processing and discard handling hubs. The project includes reconfiguring and deepening the inner harbours to improve navigational access and the provision of a much larger fish market to cater for the increasing volume of white fish being sold through Peterhead. Future stages of the Plan envisage providing additional fish processing units and constructing additional berths at the shiplift ship repair facility.

We were delighted to have been awarded a grant of £5 million from Marine Scotland under the EMFF scheme towards the cost of the current project. Negotiations to secure an overall loan funding package were successfully completed. This comprises loans of £2 million from the Scottish Government and up to £22.5 million from Santander. The balance of project costs will be met from cash reserves. As part of the interest rate strategy for managing risk, £19 million of the expected new debt was hedged with a forward starting interest rate swap which will fix the interest rate until September 2026 at 0.8625%.

A £31.9 million contract for the Marine Works was signed in September 2016 and work commenced immediately. This contract included the dredging and quay reconstruction work. An £8.4 million contract for construction of a new fish market was signed in November 2016 and on-site work will start in March 2017. It is planned that all works will be completed by April 2018.

CONVENOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

LOOKING FORWARD

The Inner Harbour Development is the main focus of attention as efforts are made to deliver the ambitious works on time and within budget.

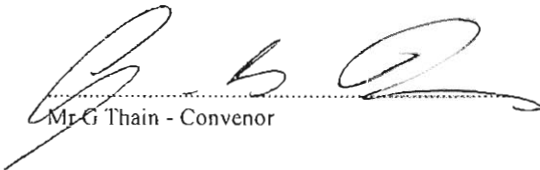
Following 15 years as Chief Executive at Peterhead Bay Authority and Peterhead Port Authority, Mr John Wallace retired on 15th July 2016. His successor is Mr Ian Laidlaw, who was Project Manager for the Inner Harbour Development.

There is optimism about the tonnage and value of demersal and shellfish landings for the year ahead but this is tempered by ongoing difficulties in the pelagic sector. During recent months an increasing percentage of the Scottish mackerel quota has been landed in Norway to the detriment of Scottish processors. This is being addressed by government and we are hopeful this trend will be reversed.

We expect to see an upturn in commercial traffic during 2017 and are working on various options as we seek to develop this business and maximise the value it delivers to the local and regional economy.

I thank all of the employees of the Authority and my colleagues on the Board for their attention and dedication, which has brought us to the start of another transformational investment in the port's infrastructure.

ON BEHALF OF THE BOARD:



Mr G Thain - Convenor

15 March 2017

PETERHEAD PORT AUTHORITY

MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The members present their report with the financial statements of the Authority for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

Peterhead Port Authority was established by the Peterhead Port Authority Harbour (Constitution) Revision Order, 2005. The Statutory Instrument transferred responsibility for the holding, managing, maintaining and developing Peterhead Bay Harbour from Peterhead Bay Authority to Peterhead Harbour Trustees. The enlarged organisation was then reconstituted and renamed Peterhead Port Authority.

Peterhead Port Authority caters mainly for the fishing and offshore oil and gas industries. Peterhead is the foremost fishing port in the UK and provides a comprehensive range of modern facilities for the industry, including the UK's busiest fishmarket, ship repair facilities and a portfolio of fish processing and workshop properties. The port is also an important centre for servicing the offshore oil industry and is particularly well placed to act as a base for logistics and subsea support operations. A range of commodities are handled and Peterhead is also a port of call for cruise ships and hosts a marina for leisure vessels, which is owned and operated by the Authority.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

See Convenor's Report on page 2.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Authority's objectives are subject to a number of risks. The key business risks and uncertainties affecting the Authority relate to periodic downturns in the fishing and offshore oil and gas industries, failure of a major customer and to the potential loss of business to other ports. These risks and uncertainties are formally reviewed by the Board and processes are put in place to monitor them and to deal with them as far as possible.

FINANCIAL RISK MANAGEMENT

The Authority's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items such as trade debtors, trade creditors etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Authority's operations.

The Authority has also entered into derivative transactions in the form of interest rate swaps, the purpose of which is to manage the interest rate risk arising from the Authority's operations and its sources of finance.

The main risk arising out of the Authority's financial instruments is interest rate risk which is reviewed by the Board and policies are agreed for managing this risk in order to generate the desired interest rate profile and to manage the Authority's exposure to interest rate fluctuations.

STATEMENT OF MEMBERS' RESPONSIBILITIES

The members are responsible for preparing the financial statements in accordance with applicable law and regulations.

The members are required to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Authority and of the profit or loss of the Authority for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the Authority's transactions and disclose with reasonable accuracy at any time the financial position of the Authority and enable them to ensure that the financial statements comply with Section 42 of the Harbours Act 1964 as amended by Schedule 6 of the Transport Act 1981. They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information on the Authority's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The members of the Authority are appointed in accordance with the Peterhead Port Authority Harbour (Constitution) Revision Order 2005 and the guiding principles set out in the "Modern Trust Ports for Scotland (Guidance for Good Governance)" document issued by Transport Scotland.

PETERHEAD PORT AUTHORITY

**MEMBERS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the members and principal officers are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Authority's auditors are unaware, and each member and principal officer has taken all the steps that he ought to have taken in order to make himself aware of any relevant audit information and to establish that the Authority's auditors are aware of that information.

AUDITORS

The auditors, Bain Henry Reid, will be proposed for re-appointment.

ON BEHALF OF THE BOARD:



Mr I Laidlaw – Chief Executive

15 March 2017

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PETERHEAD PORT AUTHORITY

We have audited the financial statements of Peterhead Port Authority for the year ended 31 December 2016 on pages seven to twenty six. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Authority's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

As explained more fully in the Statement of Members' Responsibilities set out on page four, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Convenor's Report and the Members' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Authority's affairs as at 31 December 2016 and of its profit for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of Section 42 of the Harbours Act 1964 as amended by Schedule 6 of the Transport Act 1981.
- The information given in the Members' Report on pages 4 and 5 is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



W Graeme Rattray MA CA (Senior Statutory Auditor)
for and on behalf of Bain Henry Reid
Statutory Auditors
Chartered Accountants
28 Broad Street
Peterhead
Aberdeenshire
AB42 1BY

15 March 2017

PETERHEAD PORT AUTHORITY

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
TURNOVER	3	10,841,876	9,985,839
Cost of sales		<u>(4,350,843)</u>	<u>(4,930,896)</u>
GROSS PROFIT		6,491,033	5,054,943
Administrative expenses		<u>(1,721,772)</u>	<u>(1,761,211)</u>
OPERATING PROFIT	6	4,769,261	3,293,732
Fair value gains	7	<u>343,942</u>	<u>140,096</u>
		5,113,203	3,433,828
Income from shares in group undertakings		337,497	453,089
Interest receivable and similar income	8	<u>103,631</u>	<u>83,570</u>
		5,554,331	3,970,487
Interest payable and similar expenses	9	<u>(405,197)</u>	<u>(501,326)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,149,134	3,469,161
Tax on profit on ordinary activities	10	<u>(1,168,695)</u>	<u>(773,050)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>3,980,439</u>	<u>2,696,111</u>

The notes form part of these financial statements

PETERHEAD PORT AUTHORITY

OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
PROFIT FOR THE YEAR		3,980,439	2,696,111
OTHER COMPREHENSIVE INCOME			
Actuarial gains/(losses) on pension scheme	23	(511,000)	175,000
Deferred taxation	23	<u>113,000</u>	<u>(31,950)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>(398,000)</u>	<u>143,050</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>3,582,439</u></u>	<u><u>2,839,161</u></u>

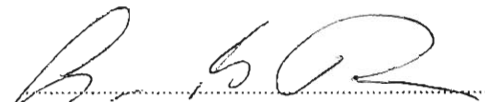
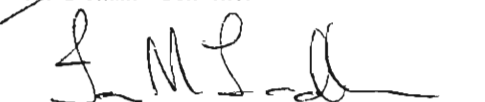
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PETERHEAD PORT AUTHORITY

**BALANCE SHEET
31 DECEMBER 2016**

	Notes	2016 £	2015 £
FIXED ASSETS			
Tangible assets	11	64,195,647	60,789,727
Investments	12	<u>2,922,356</u>	<u>2,584,859</u>
		<u>67,118,003</u>	<u>63,374,586</u>
CURRENT ASSETS			
Stocks	13	12,808	14,921
Debtors	14	2,837,601	1,737,562
Cash at bank and in hand		<u>11,011,357</u>	<u>11,122,852</u>
		13,861,766	12,875,335
CREDITORS			
Amounts falling due within one year	15	<u>(3,974,302)</u>	<u>(2,309,760)</u>
NET CURRENT ASSETS		<u>9,887,464</u>	<u>10,565,575</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		77,005,467	73,940,161
CREDITORS			
Amounts falling due after more than one year	16	(7,100,877)	(7,802,319)
PROVISIONS FOR LIABILITIES	20	(196,830)	(166,425)
ACCRUALS AND DEFERRED INCOME	21	(8,332,267)	(8,630,363)
PENSION LIABILITY	23	<u>(1,059,200)</u>	<u>(607,200)</u>
NET ASSETS		<u>60,316,293</u>	<u>56,733,854</u>
RESERVES			
Retained earnings	22	<u>60,316,293</u>	<u>56,733,854</u>
		<u>60,316,293</u>	<u>56,733,854</u>

The financial statements were approved by the Board of Members on 15 March 2017 and were signed on its behalf by:


 Mr G Thain - Convenor

 Mr I Laidlaw – Chief Executive

The notes form part of these financial statements

PETERHEAD PORT AUTHORITY

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Retained earnings £	Total equity £
Balance at 1 January 2015	53,894,693	53,894,693
Changes in equity		
Total comprehensive income	<u>2,839,161</u>	<u>2,839,161</u>
Balance at 31 December 2015	<u>56,733,854</u>	<u>56,733,854</u>
Changes in equity		
Total comprehensive income	<u>3,582,439</u>	<u>3,582,439</u>
Balance at 31 December 2016	<u><u>60,316,293</u></u>	<u><u>60,316,293</u></u>

The notes form part of these financial statements

PETERHEAD PORT AUTHORITY

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	1	5,457,556	4,998,521
Interest paid		(409,969)	(486,956)
Pension cost adjustment		54,000	59,000
Tax paid		(905,576)	(917,745)
Net cash from operating activities		<u>4,196,011</u>	<u>3,652,820</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(4,053,637)	(1,373,421)
Sale of tangible fixed assets		-	6,459
Interest received		<u>103,631</u>	<u>145,401</u>
Net cash from investing activities		<u>(3,950,006)</u>	<u>(1,221,561)</u>
Cash flows from financing activities			
New loans in year		-	7,150,000
Loan repayments in year		<u>(357,500)</u>	<u>(8,081,202)</u>
Net cash from financing activities		<u>(357,500)</u>	<u>(931,202)</u>
(Decrease)/increase in cash and cash equivalents		(111,495)	1,500,057
Cash and cash equivalents at beginning of year	2	<u>11,122,852</u>	<u>9,622,795</u>
Cash and cash equivalents at end of year	2	<u><u>11,011,357</u></u>	<u><u>11,122,852</u></u>

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

1. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2016	2015
	£	£
Profit before taxation	5,149,134	3,469,161
Depreciation charges	1,830,275	1,923,597
Profit on disposal of fixed assets	-	(2,707)
Fair value adjustment on interest rate swap	(343,941)	(140,096)
Government grants	(298,096)	(300,336)
Interest payable and similar charges	405,197	501,326
Income from shares in group undertakings	(337,497)	(453,089)
Interest receivable and similar income	(103,631)	(83,570)
	6,301,441	4,914,286
Decrease in stocks	2,113	1,704
(Increase)/decrease in trade and other debtors	(1,100,039)	386,933
Increase/(decrease) in trade and other creditors	254,041	(304,402)
Cash generated from operations	5,457,556	4,998,521

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 December 2016

	31/12/16	1/1/16
	£	£
Cash and cash equivalents	11,011,357	11,122,852

Year ended 31 December 2015

	31/12/15	1/1/15
	£	£
Cash and cash equivalents	11,122,852	9,622,795

1. **BOARD INFORMATION**

Peterhead Port Authority is a trust port having its principal place of business in Scotland. The registered office is Harbour Office, West Pier, Peterhead, AB42 1DW.

2. **ACCOUNTING POLICIES**

Basis of preparing the financial statements

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared under the historic cost convention except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The presentation currency of the financial statements is the Pound Sterling (£).

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Defined benefit pension schemes

Accounting for pensions and other-post retirement benefits involves judgements about uncertain events including estimated retirement dates, salary levels at retirement, mortality rates, determination of discount rates for measuring plan obligations, net interest expense and assumptions for inflation rates.

The assumptions used are provided in Note 23.

Revenue recognition

Turnover

Turnover is measured at the fair value of the consideration received in respect of services provided in the normal course of business stated net of value added tax.

Rental income

Rents receivable are recognised on a straight line basis over the lease term.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, over their estimated useful life or, if held under a finance lease, over the term of the lease, whichever is the shorter. The rates applicable are:

Harbour structures	- 25 to 50 years
Buildings and improvements	- 25 to 50 years
Plant and equipment	- 5 to 15 years
Motor vehicles	- 4 years
Leasehold improvements	- over the lease term

2. ACCOUNTING POLICIES - continued

Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Fixed asset investments

Investments held are stated at cost less accumulated impairment losses.

Stocks

Stocks have been valued at the lower of cost and estimated selling price less costs to sell, after making due allowance for obsolete and slow moving items.

Debtors and creditors

Short term debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Cash and cash equivalents

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 to changes in value.

Taxation

Current tax is recognised for the amount of tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of timing differences.

The tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors.

2. ACCOUNTING POLICIES - continued

Leases

Leases are classified as finance leases or hire purchase contracts whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Authority. All other leases are classified as operating leases.

Assets held under finance lease or hire purchase contracts are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease or hire purchase contract obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases or hire purchase contracts are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to the profit or loss on a straight line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the company recognises annual rent expense equal to amounts owed to the lessor.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

Pension costs and other post-retirement benefits

The Authority operates a group personal pension scheme (money purchase defined contribution scheme). Contributions are charged to the profit and loss account for the year in which they are payable to the scheme. The contributions are invested separately from the Authority's assets and the Authority has no liabilities to the scheme other than the annual contributions payable to the scheme.

The Authority also participates in a multi-employer defined benefit pension scheme and the Authority's share of the assets and liabilities of the scheme are incorporated in the financial statements based on information provided by the actuary to the scheme.

The net pension scheme asset or liability is included in the balance sheet.

Net actuarial gains and losses are recognised in the statement of other comprehensive income in the period in which they occur.

The current service cost and interest on pension liabilities less expected return on assets are charged to the profit and loss account in the period in which they occur. The current pension cost reflects the amount that would need to be paid at the start of the reporting period in order to meet the cost of the benefit accrual during the period based on projected salaries at retirement or earlier leaving.

Government grants

Government grants in respect of capital expenditure are credited to the profit and loss account over the estimated useful life of the relevant fixed assets. The grants shown in the balance sheet represent the total grants receivable to date less the amount so far credited to the profit and loss account. Other grants are credited to the profit and loss account when received.

Provision for liabilities

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

The company recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next twelve months. The provision is measured at the salary cost payable for the period of absence.

2. ACCOUNTING POLICIES - continued

Financial instruments

The authority uses interest rate swaps to adjust interest rate exposures. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit and loss. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

Debt instruments like loans and other accounts receivable and payable are initially measured at the present value of the future payments and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate, or in the case of an outright short term loan not at market rate, the financial asset or liability is measured, initially and subsequently, at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in profit or loss.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the net present value of estimated cash flows discounted at the assets original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and the best estimate, which is an approximation, of the amount that the company would receive for the asset if it were to be sold at the reporting date.

3. TURNOVER

	2016 £	2015 £
Turnover consists entirely of sales made in the United Kingdom.		
Dues on ships	2,184,965	2,517,161
Dues on goods and passengers	<u>5,577,051</u>	<u>4,492,399</u>
	7,762,016	7,009,560
Rental income	2,012,843	1,822,352
General revenue and services	<u>1,067,017</u>	<u>1,153,927</u>
	<u>10,841,876</u>	<u>9,985,839</u>

PETERHEAD PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

4. STAFF COSTS

	2016 £	2015 £
Wages and salaries	2,375,455	2,274,468
Social security costs	249,082	238,682
Pension costs	261,728	251,974
	<u>2,886,265</u>	<u>2,765,124</u>
Less: staff costs recovered from Peterhead Port Services	<u>963,656</u>	<u>924,456</u>
	<u>1,922,609</u>	<u>1,840,668</u>

The average weekly number of employees during the year was as follows:

Non-executive members	10	10
Administrative and managerial	25	25
Operating and maintenance	31	32
	<u>66</u>	<u>67</u>

5. NON-EXECUTIVE MEMBERS' AND KEY MANAGEMENT EMOLUMENTS

	2016 £	2015 £
Non-Executive members:		
Aggregate emoluments	90,165	89,403
Social security costs	1,212	929
	<u>91,377</u>	<u>90,332</u>

Key management:		
Aggregate emoluments	419,267	416,848
Pension contributions	57,690	72,226

Information regarding the highest paid member of key management for the year ended 31 December 2016 is as follows:

	2016 £	2015 £
Emoluments etc	108,885	139,960
Pension contributions	22,438	27,751

6. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2016 £	2015 £
Depreciation - owned assets	1,830,275	1,923,597
Profit on disposal of fixed assets	-	(2,707)
Auditors' remuneration	9,500	9,000
Auditors' remuneration for non audit work	6,000	3,500
Amortisation of grants	<u>(298,096)</u>	<u>(300,336)</u>

PETERHEAD PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

7. FAIR VALUE GAINS

	2016 £	2015 £
Gain on interest rate swaps	<u>343,942</u>	<u>140,096</u>

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £	2015 £
Bank interest receivable	<u>103,631</u>	<u>83,570</u>

9. INTEREST PAYABLE AND SIMILAR EXPENSES

	2016 £	2015 £
Bank loan interest	<u>405,197</u>	<u>501,326</u>

10. TAXATION

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	2016 £	2015 £
Current tax:		
UK corporation tax	1,138,290	785,694
Tax re previous years	-	(45,937)
Total current tax	1,138,290	739,757
Deferred tax	<u>30,405</u>	<u>33,293</u>
Tax on profit	<u>1,168,695</u>	<u>773,050</u>

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2016 £	2015 £
Profit before tax	<u>5,149,134</u>	<u>3,469,161</u>
Profit multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.247%)	1,029,827	702,401
Effects of:		
Expenses not deductible for tax purposes	11,508	7,250
Share of profit of subsidiary undertaking	(67,499)	(91,737)
Depreciation on non qualifying assets	298,690	313,487
Amortisation on non qualifying assets	(50,521)	(51,598)
Enhanced capital allowances	(53,310)	(53,969)
Effective rate change in deferred tax	-	(507)
Adjustment re prior year deferred tax	-	(6,340)
Adjustment re prior year tax	-	(45,937)
Total tax charge	<u>1,168,695</u>	<u>773,050</u>

10. TAXATION - continued

Tax effects relating to effects of other comprehensive income

	Gross £	2016 Tax £	Net £
Actuarial gains/(losses) on pension scheme	(511,000)	-	(511,000)
Deferred taxation	<u>113,000</u>	-	<u>113,000</u>
	<u>(398,000)</u>	-	<u>(398,000)</u>
	Gross £	2015 Tax £	Net £
Actuarial gains/(losses) on pension scheme	175,000	-	175,000
Deferred taxation	<u>(31,950)</u>	-	<u>(31,950)</u>
	<u>143,050</u>	-	<u>143,050</u>

11. TANGIBLE FIXED ASSETS

	Land, Buildings & Improvements £	Current developments £	Plant and machinery £	Motor vehicles £	Totals £
COST					
At 1 January 2016	80,563,424	2,096,655	5,322,935	74,889	88,057,903
Additions	(4,116)	5,168,854	71,457	-	5,236,195
Disposals	-	-	(299,023)	-	(299,023)
At 31 December 2016	<u>80,559,308</u>	<u>7,265,509</u>	<u>5,095,369</u>	<u>74,889</u>	<u>92,995,075</u>
DEPRECIATION					
At 1 January 2016	24,044,393	-	3,187,988	35,795	27,268,176
Charge for year	1,493,447	-	321,087	15,741	1,830,275
Eliminated on disposal	-	-	(299,023)	-	(299,023)
At 31 December 2016	<u>25,537,840</u>	-	<u>3,210,052</u>	<u>51,536</u>	<u>28,799,428</u>
NET BOOK VALUE					
At 31 December 2016	<u>55,021,468</u>	<u>7,265,509</u>	<u>1,885,317</u>	<u>23,353</u>	<u>64,195,647</u>
At 31 December 2015	<u>56,519,031</u>	<u>2,096,655</u>	<u>2,134,947</u>	<u>39,094</u>	<u>60,789,727</u>

Included within land and buildings are long leasehold structures with a NBV of £42,407,443 (2015: £43,350,252) and short leasehold structures with a NBV of £4,148,080 (2015: £4,449,500).

12. FIXED ASSET INVESTMENTS

	2016 £
Peterhead Port Services:	
At 1st January 2016	2,584,859
Profit/(loss) for year	<u>337,497</u>
At 31st December 2016	<u>2,922,356</u>

Peterhead Port Authority wholly owns Peterhead Port Services which provides pilotage services within the Port of Peterhead.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

12. FIXED ASSET INVESTMENTS - continued

The Statutory Harbour Undertakings (Pilotage Accounts) Regulations 1988 require the separate disclosure of revenue and expenditure applicable to pilotage activities. Pilotage at Peterhead is undertaken by Peterhead Port Services, which provides pilotage services for vessels visiting the Port of Peterhead. The financial statements of Peterhead Port Services for the year ended 31st December 2016 are summarised as follows:

	2016 £	2015 £
Revenue and Expenditure Account		
Revenue from pilotage services	<u>979,683</u>	<u>1,102,231</u>
Aggregate expenditure incurred on:		
Providing the services of a pilot	343,301	336,226
Providing, maintaining and operating the pilot boat	387,636	374,080
Administration and other costs	<u>149,350</u>	<u>136,497</u>
Total pilotage expenditure	<u>880,287</u>	<u>846,803</u>
Profit on pilotage activities	99,396	255,428
Net other income/(expenditure)	320,240	311,971
Taxation	<u>(82,139)</u>	<u>(114,310)</u>
Surplus for year	<u>337,497</u>	<u>453,089</u>
Balance Sheet		
Fixed assets, at cost	655,315	655,315
Aggregate depreciation	<u>(593,090)</u>	<u>(584,030)</u>
	<u>62,225</u>	<u>71,285</u>
Current assets:		
Debtors	214,136	248,401
Investments	744,858	627,695
Cash and bank balances	<u>2,772,088</u>	<u>2,509,183</u>
	<u>3,731,082</u>	<u>3,385,279</u>
Creditors: amounts falling due within one year:		
Creditors and accruals	117,589	28,330
Corporation tax	<u>51,483</u>	<u>100,881</u>
	<u>169,072</u>	<u>129,211</u>
Total assets less current liabilities	3,624,235	3,327,353
Provision for liabilities	<u>701,879</u>	<u>742,494</u>
Net assets	<u>2,922,356</u>	<u>2,584,859</u>

13. STOCKS

	2016 £	2015 £
Stocks	<u>12,808</u>	<u>14,921</u>

PETERHEAD PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Trade debtors	1,708,114	1,327,998
Other debtors	789,465	78,808
Prepayments and accrued income	340,022	330,756
	<u>2,837,601</u>	<u>1,737,562</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Bank loans and overdrafts (see note 17)	357,500	357,500
Trade creditors	564,465	383,054
Tax	558,290	325,576
Social security and other taxes	94,100	85,814
Other creditors and accruals	2,399,947	1,157,816
	<u>3,974,302</u>	<u>2,309,760</u>

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016	2015
	£	£
Bank loans (see note 17)	6,435,000	6,792,500
Financial liabilities (see note 19)	665,877	1,009,819
	<u>7,100,877</u>	<u>7,802,319</u>

17. LOANS

	2016	2015
	£	£
Repayable by instalments over 10 years to 2025		
Bank loan at 5.95% per annum (fixed by interest rate swap)	6,792,500	7,150,000
	<u>6,792,500</u>	<u>7,150,000</u>
Included in current liabilities	357,500	357,500
Amounts falling due between one and two years	357,500	357,500
Amounts falling due between two and five years	1,072,500	1,072,500
Amounts falling due in more than five years	5,005,000	5,362,500
	<u>6,792,500</u>	<u>7,150,000</u>

Bank loans are secured by a legal charge over property and quays at Peterhead Port.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

18. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases calculated at present value using a pre-tax discount rate fall due as follows:

	2016 £	2015 £
Within one year	80,993	72,669
Between one and five years	226,971	217,564
In more than five years	<u>2,697,709</u>	<u>2,703,568</u>
	<u>3,005,673</u>	<u>2,993,801</u>

19. FINANCIAL INSTRUMENTS

	2016 £	2015 £
Financial assets measured at amortised costs		
Trade and other debtors	2,497,579	1,406,806
Financial liabilities at fair value through profit or loss		
Interest rate swaps	(665,877)	(1,009,819)
Financial liabilities measured at amortised cost		
Loans	(6,792,500)	(7,150,000)
Trade creditors	(564,465)	(383,054)

The fair value of the interest rate swaps held at fair value through profit and loss at the balance sheet date is calculated by discounting the expected future cash flows at prevailing interest rates. Included in the interest rate swap above is the fair value of a swap relating to a future loan that was committed for at the year end.

20. PROVISIONS FOR LIABILITIES

	2016 £	2015 £
Deferred tax	<u>196,830</u>	<u>166,425</u>
		Deferred tax
		£
Balance at 1 January 2016		166,425
Charge to Income Statement during year		<u>30,405</u>
Balance at 31 December 2016		<u>196,830</u>

21. ACCRUALS AND DEFERRED INCOME

	2016 £	2015 £
Government grants		
At 1st January 2016	8,630,363	8,930,699
Amortisation in year	<u>(298,096)</u>	<u>(300,336)</u>
At 31st December 2016	<u>8,332,267</u>	<u>8,630,363</u>

22. RESERVES

	Retained earnings £
At 1 January 2016	56,733,854
Profit for the year	3,980,439
Actuarial gain/(loss) relating to net pension deficit	<u>(398,000)</u>
At 31 December 2016	<u>60,316,293</u>

Retained earnings

This reserve records all current and prior period retained profit and losses.

23. EMPLOYEE BENEFIT OBLIGATIONS

Defined Benefit schemes**Peterhead Port Authority**

PPA participates in the North East Scotland Pension Fund which is part of the Local Government Pension Scheme (Scotland), a multi-employer, defined benefits scheme. The contribution rate required for PPA is set on a grouped basis, combining the experience of the employer with a number of other employers also participating in the Fund.

Information about the overall funding position of the North East Scotland Pension Fund has been provided by the actuary to the Fund. The results of the actuarial valuation as at 31st December 2015 have been updated to 31st December 2016 by the qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

The amounts recognised in the balance sheet are as follows:

	Defined benefit pension plans	
	2016 £	2015 £
Present value of funded obligations	(4,990,000)	(4,028,000)
Fair value of plan assets	<u>3,706,000</u>	<u>3,302,000</u>
	(1,284,000)	(726,000)
Present value of unfunded obligations	<u>(40,000)</u>	<u>(33,000)</u>
Deficit	(1,324,000)	(759,000)
Deferred tax asset	<u>264,800</u>	<u>151,800</u>
Net liability	<u>(1,059,200)</u>	<u>(607,200)</u>

None of the fair values of the assets shown above include any of the Authority's own financial instruments or any property occupied by, or other assets used by, the Authority.

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in profit or loss are as follows:

	Defined benefit pension plans	
	2016	2015
	£	£
Current service cost	103,000	111,000
Net interest from net defined benefit asset/liability	27,000	30,000
Past service cost	-	-
Administration expenses	2,000	2,000
	<u>132,000</u>	<u>143,000</u>
Actual return on plan assets	<u>548,000</u>	<u>160,000</u>

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans	
	2016	2015
	£	£
Opening defined benefit obligation	4,061,000	4,151,000
Current service cost	103,000	111,000
Contributions by scheme participants	35,000	36,000
Interest cost	150,000	146,000
Remeasurements	936,000	(131,000)
Benefits paid	(255,000)	(252,000)
	<u>5,030,000</u>	<u>4,061,000</u>

Changes in the fair value of scheme assets are as follows:

	Defined benefit pension plans	
	2016	2015
	£	£
Opening fair value of scheme assets	3,302,000	3,276,000
Contributions by employer	78,000	84,000
Contributions by scheme participants	35,000	36,000
Administration expenses	(2,000)	(2,000)
Interest on plan assets	123,000	116,000
Remeasurements	425,000	44,000
Benefits paid	(255,000)	(252,000)
	<u>3,706,000</u>	<u>3,302,000</u>

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in other comprehensive income are as follows:

	Defined benefit pension plans	
	2016	2015
	£	£
Actuarial gains/(losses)	(511,000)	175,000
Deferred tax adjustment	<u>113,000</u>	<u>(31,950)</u>
	<u>(398,000)</u>	<u>143,050</u>

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	Defined benefit pension plans	
	2016	2015
Equities	65.00%	79.60%
Government bonds	12.00%	9.70%
Other bonds	2.00%	2.30%
Property	7.00%	7.00%
Cash/liquidity	3.00%	1.30%
Other	<u>11.00%</u>	<u>0.10%</u>
	<u>100.00%</u>	<u>100.00%</u>

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2016	2015
Discount rate	2.70%	3.80%
Rate of increase in salaries	3.80%	3.60%
Rate of increase in pensions	2.30%	2.10%
CPI inflation	2.30%	2.10%

Duration information as at the end of the accounting period

Estimated Macaulay duration of liabilities (at later of 31 March 2014 & admission date):

Duration profile used to determine assumptions:

**16 years
very mature**

Post retirement mortality assumptions (normal health)

Non - retired members	SIPA CMI 2013 [1.5%](107% males, 97% females)	SIPA CMI 2013 [1.5%](107% males, 97% females)
Retired members	SIPA CMI 2013 [1.5%](106% males, 103% females)	SIPA CMI 2013 [1.5%](106% males, 103% females)

The mortality assumptions adopted at 31 December 2016 imply the following future life expectancies:

	Future Life Expectancy (years)
Male retiring at 65 in 2016	22.2
Female retiring at 65 in 2016	24.8
Male retiring at age 65 in 2036	24.4
Female retiring at age 65 in 2036	27.6

Peterhead Port Services

Peterhead Port Services (PPS) is a member of two multi-employer final salary pension schemes one of which is in deficit, while the other is in surplus.

The Pilots National Pension Fund had its last actuarial valuation at 31st December 2013 which reported a deficit of £203 million (representing a 57% funding level). Interim funding update results at 30th September 2016 report an improved position, with a deficit of £176.3 million (representing a 65% funding level). A 16 year recovery plan was put in place by the Fund Trustees which commenced in 2013. In accordance with FRS 102, a liability of £701,879 (2015: £742,494) has been provided for in the financial statements being the total present value of outstanding contributions due by Peterhead Port Services under the recovery plan.

The Merchant Navy Officers Pension Fund had its last actuarial valuation at 31st March 2015 which reported a net deficit of £5 million. The PPS contribution to this deficit was £13,441 which has been paid in full. Preliminary valuation results at 31st March 2016 report an improved position, with a net surplus of £9 million (representing a 100% funding level) after allowing for deficit contributions due to the scheme. PPS currently has no employees contributing to the fund as the MNOPF decided to close the defined benefit scheme to new accruals. The active member in PPS had to enroll into the Ensign defined contribution scheme, a change which prevents additional deficits building up and removes the risk of triggering a section 75 debt.

24. CAPITAL COMMITMENTS

	2016 £	2015 £
Contracted but not provided for in the financial statements	<u>36,967,560</u>	<u>496,461</u>

25. RELATED PARTY DISCLOSURES

All transactions during the year with related parties were concluded on normal commercial terms.