PORT OTAGO

INTERIM REPORT

For the six months ended 31 December 2018

OVERVIEW OF GROUP FINANCIAL RESULTS

	Six months Dec 2018 $000	Six months Dec 2017 $000
Total revenue and other income	44,316	52,334
Operating profit	11,543	14,321
Profit for the period	8,344	10,354
Net cash flow surplus (deficit) from operating activities	(968)	14,220
Total assets	596,866	543,401
Shareholder's equity	475,662	443,150
Equity ratio	80%	82%
Trade:		
Cargo vessel arrivals	231	214
Cruise vessel arrivals	43	33
Total ship calls	274	247
Container throughput (twenty-foot equivalent units)	93,000	97,000
Bulk cargo tonnes (000's)	873	907

HALF YEAR REVIEW
FROM THE CHAIR

A tax-paid profit of $8.3 million was delivered for the six months ended 31 December 2018, compared to $10.4 million in the first half of the previous financial year, a variance of $2.1 million. This difference relates to the timing of Te Rapa Gateway land sales, with less sections settling in the first half of this year whereas last year Te Rapa Gateway land sales contributed $2.5 million. Excluding this difference in Te Rapa Gateway land sales, the Group achieved a similar result for the six-month period.

Compared to last year, port operations revenue was down 1% to $35.3 million, due to a slower start to the containerised export season and a lower volume of export logs. Partly offsetting these lower cargo volumes was the increased number of cruise ship arrivals – 43 compared to 33. Total ship calls increased 11% to 274 arrivals. Container throughput was down 5% to 92,700 teu, although tranship container numbers increased 39%, as shipping lines hubbed containers from other New Zealand ports onto shipping services calling at Port Otago. Full container export and import volumes were down 9%, but are expected to recover in the second half of the year thanks to stronger dairy and meat exports.

EBITDA from port operations was down 10%, from $11.5 million to $10.4 million, following lower port operations revenue and a 3% increase in staff costs.

The investment property EBITDA, excluding Hamilton land sales, was up 5% to $6.8 million. Investment property rentals increased 4% to $8.1 million, as a result of new warehouse leases at Te Rapa Gateway. We intend completing the Hamilton land development activities before the June 2019 balance date, which is required for 8.4 hectares of pre-sold land sales settling by this date. An additional 3.3 hectares of pre-sold land is contracted to settle in the 2019/20 financial year.

Shareholder equity increased to $476 million, from $468 million at June 2018. The Group's total assets of $597 million include $357 million of investment property and related property inventories.

Cash flow from operations was a $0.97 million deficit, with $7.4 million expended on completing the Te Rapa Gateway land development. The timing of tax payments and other working capital items also impacted the cash flow.

Keeping our people safe

We continued investing in safety, with several key projects delivered in the six-month period:

- In response to last year's sideloader fire, fire suppression was upgraded across the sideloader fleet and two new loaders are due for delivery early 2019.
- On-going investment at Dunedin depot to separate man and machine established new ways of working that will now be rolled out at Port Chalmers and other locations.
- Introducing best practise Personal Protective Equipment for all staff increased visibility, reducing risk to our team on the ground, while also reflecting the professionalism of these skilled port operators.
- Rolling out defibrillators to all our sites – including floating plant, depots and the Aramoana community – for ready access in the event of an acute medical event.

Port infrastructure

Port Chalmers wharf extension

During the six months to 31 December 2018, the 135 metre wharf extension was completed two months ahead of time and on budget. This was a great project and credit to the lead contractor HEB Construction for a safe and professional build in challenging marine conditions. Extending the length of the Port Chalmers berths to 850 metres provides flexibility to handle the largest container ships visiting the New Zealand coast and has accommodated the increasing number of cruise vessels visiting Port Chalmers, whilst still providing berths for our log customers. The new berth has already been well used since our operational team took control in October. This was just in time to support the Maersk network change and subsequent increase in tranships volumes from November.

Channel dredging

An additional barge, the second-hand TR Healy, was purchased for $1.65 million and doubles the dredging efficiency of the recently-acquired backhoe dredge, Takutai. Dredging will be concentrated in the upper harbour this year, while lower harbour dredging will focus on widening the channel to consented levels.

Asbestos management

Removal of the Fryatt Street wharf sheds' asbestos roof is progressing, alongside the managed exit of wharf shed tenants. Demolition will commence shortly, followed by wharf deck maintenance to allow safe public access.

Chalmers Properties Limited (CPL)

Civil works on a 1.8 hectare bare land site owned by CPL in Wiri (Auckland) commenced during the year. Construction of two industrial warehouses will soon begin, as stage 1 of a Wiri industrial park.

The sale of a Dunedin ground lease was settled during the six-month period, with a further sale agreed for settlement before the end of the financial year.

Te Rapa Gateway development

Stages 3, 4 and 5 are being carried out in parallel, enabling titles to be issued for pre-sold sections. Following completion of the current works, only 2 hectares of undeveloped land will remain.

The strategy of converting a portion of the developed land inventories into long-term investment properties or selling the developed land is constantly being reviewed. Planning and consenting is underway to construct another two warehouses at Te Rapa Gateway. A lease commitment has been agreed for one of these warehouses and interest is being expressed in the other. Another recently constructed vacant warehouse was also leased during this period. This brings the number of Te Rapa investment properties, excluding vacant land, owned by the Group to six warehouse units and four larger warehouses.

Interim dividend

An interim dividend of $3.6 million, up from $3.5 million last year, will be paid to our shareholder, the Otago Regional Council, on 5 February 2019.

Directors

Ed Johnson retired from the Board in December after 16 years' service. On behalf of the Board and team at Port Otago, we acknowledge Ed's contribution to the governance of the Group and his support of the astute investment decisions made during his time on the Board.

Looking ahead

The lower cargo volumes during the first half of the financial year are forecast to recover in the second half – returning to slightly higher volumes than last year, although this depends on weather conditions and the impact on the grass curve in our catchment.

Planning is already underway to manage the increasing cruise vessel arrivals forecast for next year's cruise season, another significant step up in visits which is positive for the Dunedin economy.

For and on behalf of the Board of Directors.

David Faulkner
Chairman
5 February 2019

CONDENSED INCOME STATEMENT

For the six months ended 31 December 2018

	Unaudited 6 months Dec 18 $000	Unaudited 6 months Dec 17 $000	Audited Year to Jun 18 $000
Revenue			
Port operations	35,260	35,796	74,935
Investment property rentals	8,062	7,717	15,447
Sales of investment property inventories	384	8,814	19,007
	43,706	52,327	109,389
Other income			
Gain on sale of investment property and property, plant and equipment	610	7	1,671
Total revenue and other income	**44,316**	**52,334**	**111,060**
Operating expenses			
Staff costs	(16,084)	(15,652)	(32,007)
Purchased materials and services	(10,159)	(9,925)	(20,737)
Cost of sales of investment property inventories	(270)	(6,320)	(13,593)
Depreciation and amortisation	(4,819)	(4,548)	(9,223)
Asbestos remediation costs	-	-	(2,880)
Total operating expenses	**(31,332)**	**(36,445)**	**(78,440)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax	**12,984**	**15,889**	**32,620**
Financing costs	(1,547)	(1,701)	(2,926)
Share of profit from equity accounted investment	106	133	205
Operating profit before non-operating income and expenses and income tax	**11,543**	**14,321**	**29,899**
Non-operating income and expenses			
Subvention payment	-	-	(101)
Unrealised net change in the value of investment property	-	-	22,049
	-	-	21,948
Profit before income tax	**11,543**	**14,321**	**51,847**
Income tax expense	(3,199)	(3,967)	(7,991)
Profit for the period	**8,344**	**10,354**	**43,856**

The accompanying notes form part of these interim financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2018

	Unaudited 6 months Dec 18 $000	Unaudited 6 months Dec 17 $000	Audited Year to Jun 18 $000
Profit for the period	8,344	10,354	43,856
Other comprehensive income to be reclassified to the income statement in subsequent periods (net of tax)			
Unrealised movement in hedged interest rate swaps	(257)	(256)	(333)
Total comprehensive income for the period	**8,087**	**10,098**	**43,523**

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2018

	Unaudited 6 months Dec 18 $000	Unaudited 6 months Dec 17 $000	Audited Year to Jun 18 $000
Equity at the beginning of the period	468,075	433,552	433,552
Total comprehensive income for the period	8,087	10,098	43,523
Dividends paid to owners	(500)	(500)	(9,000)
Equity at the end of the period	**475,662**	**443,150**	**468,075**

The accompanying notes form part of these interim financial statements.

CONDENSED BALANCE SHEET

As at 31 December 2018

	Unaudited Dec 18 $000	Unaudited Dec 17 $000	Audited Jun 18 $000
Current assets			
Cash and cash equivalents	449	278	252
Trade and other receivables	15,966	16,243	16,687
Investment property inventories	38,127	20,489	31,190
Property held for sale	-	2,145	-
Maintenance inventories	1,320	1,144	1,308
	55,862	40,299	49,437
Non-current assets			
Investment property	318,561	304,982	317,790
Property, plant and equipment	215,615	191,312	209,205
Intangible assets	4,887	5,168	5,151
Equity accounted investments	1,938	1,560	1,631
Derivative financial instruments	-	58	-
Other financial assets	3	22	13
	541,004	503,102	533,790
Total assets	**596,866**	**543,401**	**583,227**
Current liabilities			
Trade and other payables	5,722	8,031	8,967
Employee entitlements	4,445	4,574	4,984
Provisions	1,439	-	2,433
Derivative financial instruments	1,768	596	437
Income tax payable	446	1,914	4,910
	13,820	15,115	21,731
Non-current liabilities			
Borrowings	91,060	68,385	77,635
Employee entitlements	910	952	910
Derivative financial instruments	935	351	571
Deferred tax liabilities	14,479	15,448	14,305
	107,384	85,136	93,421
Total liabilities	**121,204**	**100,251**	**115,152**
Equity			
Share capital	20,000	20,000	20,000
Reserves	455,662	423,150	448,075
Total equity	**475,662**	**443,150**	**468,075**
Total equity and liabilities	**596,866**	**543,401**	**583,227**

The accompanying notes form part of these interim financial statements.

CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2018

	Unaudited 6 months Dec 18 $000	Unaudited 6 months Dec 17 $000	Audited Year to Jun 18 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue	34,196	33,112	72,387
Investment property rentals	9,085	6,942	14,134
Sales of investment property inventories	384	8,874	18,229
Interest received	71	64	11
Cash was applied to:			
Payments to employees and suppliers	(30,733)	(26,238)	(50,642)
Expenditure on investment property inventories	(7,442)	(2,820)	(12,128)
Interest paid	(1,290)	(1,628)	(2,550)
Subvention payments	-	-	(101)
Income tax payments	(7,388)	(4,125)	(6,254)
Net GST received (paid)	2,149	39	(1,783)
Net cash flow surplus (deficit) from operating activities (Note 7)	**(968)**	**14,220**	**31,303**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment	214	378	418
Sale of investment property	1,060	-	7,506
Advances from (to) related parties	(164)	352	737
Cash was applied to:			
Purchase of property, plant and equipment	(11,122)	(14,167)	(36,707)
Purchases and improvements to investment property	(1,460)	(447)	(3,372)
Interest capitalised	(288)	(48)	(373)
Net cash flows used in investing activities	**(11,760)**	**(13,932)**	**(31,791)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings	13,425	-	20,965
Cash was applied to:			
Repayment of borrowings	-	(35)	(11,750)
Dividends paid	(500)	(500)	(9,000)
Net cash flows from financing activities	**12,925**	**(535)**	**215**
Increase (decrease) in cash held	197	(247)	(273)
Cash held at beginning of period	252	525	525
Cash held at end of period	**449**	**278**	**252**

The accompanying notes form part of these interim financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2018 (unaudited)

1. General information

The unaudited interim condensed financial statements presented are those of Port Otago Limited ("the Company"), its subsidiaries, associates and share of joint ventures and joint operations ("the Group"). The Company is a limited liability company incorporated in New Zealand and registered under the Companies Act 1993.

2. Summary of significant accounting policies

Basis of preparation

These unaudited condensed interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. The unaudited interim financial statements are presented in New Zealand dollars, which is the Group's functional currency.

The unaudited condensed interim financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report for the year ended 30 June 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- NZ IFRS 9 Financial Instruments, and
- NZ IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 3.

(b) Impact of standards issued but not yet applied by the Group

NZ IFRS 16 Leases was issued in January 2016 and will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. The accounting for operating leases as lessor will not significantly change. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable operating lease commitments of $0.78 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. The Group does not intend to adopt the standard before its effective date of 1 July 2019.

3. Changes in accounting policies

(a) NZ IFRS 9 Financial Instruments introduces new requirements for the following:

(i) The classification and measurement of financial assets and financial liabilities

All recognised financial assets that are within the scope of NZ IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of Port Otago's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(ii) Impairment of financial assets

NZ IFRS 9 requires an expected credit loss model (as opposed to an incurred credit loss model under NZ IAS 39) to be used to assess any impairment of financial assets. No material adjustments have been made to the loss allowance recognised in the year ended 30 June 2018.

(iii) General hedge accounting

The new general hedge accounting requirements retain three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In accordance with NZ IFRS 9's transition provisions for hedge accounting, Port Otago has applied the NZ IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. Port Otago's qualifying hedge relationships in place as at 1 July 2018 also qualified for hedge accounting in accordance with NZ IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 July 2018.

(b) NZ IFRS 15 Revenue from Contracts with Customers – impact of adoption

Port operations revenue is derived from an integrated performance obligation for the provision of channel navigation, berthage, wharfage, stevedoring and cargo storage services. Revenue is recognised over time as Port Otago performs the service and the customer simultaneously benefits from that service. Apart from changes to the financial statement disclosures the adoption of NZ IFRS 15 has had no material impact on the financial performance of Port Otago for the current and prior years due to the short service performance timeframes.

The Group also develops and sells industrial zoned land. Sales of investment property inventories are recognised when control over the property has been transferred to the customer. The revenue is measured at the transaction price agreed under the contract. The consideration is due when legal title has been transferred.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The impact on the financial statements of adopting NZ IFRS 15 is immaterial.

4. Critical estimates and assumptions

At each balance date, the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful lives and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

5. Investment property valuation

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2018. The Board has received and considered advice from management that there has been no material change to those valuations. Borrowing costs and other costs recognised in the accounting period that are directly attributable to the acquisition of long term investment property development projects are capitalised as part of the cost of those assets. Investment property inventories where a change in use is evidenced by the inception of an operating lease to another party are transferred from inventories to investment property at carrying value with fair value determined at balance date.

6. Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to economically hedge its exposure to interest rate risks arising from operational, financing and investment activities.

7. Reconciliation of operating cash flows

	6 months Dec 18 $000	6 months Dec 17 $000	Year to Jun 18 $000
The reconciliation between profit and the cash flows from operating activities is:			
Profit for the period	8,344	10,354	43,856
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	-	-	(22,049)
Depreciation and amortisation	4,819	4,548	9,223
Movement in non-current employee entitlements	-	20	(22)
Movement in deferred tax	274	(84)	(1,185)
Plus/(less) items classified as investing activities:			
Gain on sale of property, plant and equipment	(395)	10	(8)
Gain on sale of investment property	(183)	-	(1,641)
Share of surpluses retained by joint ventures	(106)	(133)	(205)
Movement in working capital items:			
Trade and other receivables	(1,094)	(3,829)	(3,280)
Trade and other payables	240	422	960
Current employee entitlements	(538)	(321)	88
Provisions	(994)	-	2,433
Income tax payable	(4,463)	(73)	2,922
Maintenance inventories	(12)	52	(112)
Investment property inventories	(7,174)	3,558	686
Movement in working capital items classified as investing activities	314	(304)	(363)
Net cash flow surplus (deficit) from operating activities	**(968)**	**14,220**	**31,303**

8. Commitments

At 31 December 2018 the Group had commitments/approvals for capital expenditure of $10.37 million (31 December 2017: $26.3 million, 30 June 2018: $9.31 million) which relates to purchases and upgrades of port and property assets.

9. Contingencies

There are no contingent liabilities at 31 December 2018 other than those arising in the normal course of business.

10. Events after balance date

Dividends

On 5 February 2019 the directors declared an interim dividend of $3.6 million.

DIRECTORY

Directors

David Faulkner Chairman
Paul Rea Deputy Chairman
Tom Campbell
Tim Gibson
Pat Heslin
Ed Johnson (retired 31 December 2018)

Intern

Stephanie Pettigrew

Leadership Team

Kevin Winders Chief Executive
Stephen Connolly Chief Financial Officer
Sean Bolt GM Marine and Infrastructure
David Chafer GM Property
Kevin Kearney GM Operations
Craig Usher Commercial Manager
Kate Walton People and Capability Manager
Dylan Lee Chief Information Officer
Gavin Schiller Head of Safety
Deanna Matsopoulos Supply Chain Manager
Jodi Taylor Executive Assistant

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General