PORT OTAGO

INTERIM REPORT

For the six months ended 31 December 2019

OVERVIEW OF GROUP FINANCIAL RESULTS

	Six months Dec 2019 $000	Six months Dec 2018 $000
Total revenue and other income	47,159	46,113
Operating profit*	9,821	11,543
Profit for the period	7,047	8,344
Net cash flow surplus (deficit) from operating activities	573	(968)
Total assets	633,277	596,866
Shareholder's equity	514,831	475,662
Equity ratio	81%	80%
Trade:		
Dunedin bulk port cargo vessel arrivals	107	109
Port Chalmers container and bulk cargo vessel arrivals	121	122
Otago cruise vessel arrivals	42	43
Total ship calls	270	274
Container throughput (twenty-foot equivalent units)	89,000	93,000
Bulk cargo tonnes (000's)	860	873

**Operating profit before non-operating income and expenses and income tax.*

HALF YEAR REVIEW
FROM THE CHAIR

Financial results

The Port Otago Group achieved an unaudited tax-paid profit of $7.0 million for the six months ended 31 December 2019, a decrease of 16% compared to $8.3 million in the comparative six month period last year. Total revenue was 2% higher than the comparative period with increased sales of investment property inventories but with marine and cargo services revenue in line with the previous period from slightly lower trade volumes.

Total container throughput for the period was 89,000TEU, down 4% on the same period last year. Full export chilled/frozen container volumes were up 10%, but offset by a 5% reduction in export dry containers, which generally contain dried milk powder and timber products. Total bulk cargo volumes were 1% lower at 860,000 tonnes as export log volumes reduced by 5% to 528,000 tonnes, a pleasing result given the significant fall in export log pricing in the early part of the year.

The cruise business was flat for the 6 months with 42 cruise vessel arrivals at Port Chalmers and Dunedin with four cancellations, due to weather conditions, compared with 43 cruise arrivals during the comparative period with one cancellation. In addition, 23 cruise vessels were piloted by Port Otago pilots in Fiordland, down from 29 in the last interim period.

Total operating expenses of $36.2 million were up 8% with higher staff costs including renewal of employment agreements with a 3% increase, increased levels of marine maintenance, higher fuel costs and container yard paving maintenance. The increased marine maintenance was driven by a mid-life engine rebuild for the tug Otago and following higher utilisation of the dredging equipment, Takutai and New Era. The resulting group EBITDA was $16.3 million compared to $17.3 million.

Depreciation was $0.9 million higher compared to the comparative period following the completion of the multi-purpose wharf extension last financial year, acquisition of new port assets, and change in accounting treatment of leased assets.

Shareholder equity increased to $515 million from $508 million at June 2019. This is an equity ratio of 81% with total assets of $633 million including $376 million of investment property and related property inventories.

Keeping our people safe

The focus remains on understanding our critical risks and developing improved mitigations to keep our people safe. Good progress has been made in the first half with investments in hard concrete barriers at the Port Chalmers container depot and improvements at the truck exchange area to remove the risk of man and machinery.

Our TimeTarget rostering system continues to be developed as functions such as smartphone roster notifications are rolled out across the business. The system was introduced to manage the risk of staff fatigue with rules to be set up around, for instance, maximum hours worked and minimum stand-down periods between shifts.

Our neighbourhood

Following the introduction last year of the 5,900 teu capacity Rio class container vessels on the Maersk South East Asia service, it was evident that the vessels emitted a low frequency noise which significantly impacted our neighbours. A year-long project with Maersk has delivered a solution at source being the installation of silencers to one of the vessels generators on each of the Rio vessels in the rotation. The silencers have removed the low frequency noise and reduced the overall noise output by around 20 decibels, a great outcome.

The completion of the fishing jetty at Careys Bay has been a hugely popular local facility with the public enjoying some very successful fishing in the Otago harbour. The construction of the fishing jetty was a condition of the multi-purpose wharf extension project and is a great community asset.

Port infrastructure

Dredging continued in the upper harbour from Port Chalmers to Dunedin to the consented depth of 8.5 metres. Surveying of the channel to Dunedin is currently underway to identify any remaining areas

requiring to be dredged while further widening of the channel will be completed to improve the safety of vessels transiting to Dunedin. Port Otago also purchased the ENZA warehouse building situated beside the Leith wharf in Dunedin during the period as part of the Dunedin Bulk Port development plan.

Chalmers Properties Limited (CPL)

Construction of two warehouses in the first stage of the Oak Road Industrial Park in Wiri, Auckland are on track for completion before the end of the financial year. An unconditional lease has been secured for the 4,000m2 warehouse with the other 5,077m2 warehouse being marketed to prospective tenants and we are confident of leasing the building in the current year. Given the low levels of quality vacant warehouses in this prime Auckland area, the Board remains confident that the Oak Road Industrial Park will grow to be of significant value to the diversified property portfolio.

The sale of one lot in the Te Rapa Gateway Industrial Park in Hamilton settled in the period with the sale of a further 3 hectares of developed land settling in January 2020. Sales enquiry remains strong for the remaining developed land as the industrial park develops. Practical completion of a further 1,060 m2 warehouse at the Te Rapa Gateway Industrial Park was achieved with construction of a further six smaller office/ warehouse units underway. These are being actively marketed for lease.

Interim dividend

An interim dividend of $4.5 million, up from $3.6 million last year, will be paid to our shareholder, the Otago Regional Council, on 27 February 2020.

Directors

Dave Faulkner retired as Chair in December after 10 years' service, including 9 years as Chair. During this period Dave saw through the completion of the Next Generation infrastructure upgrade including deepening the channel to Port Chalmers to 14 metres, warehousing expansion and acquisition of new dredging equipment. Dave also oversaw the completion of the land development at Te Rapa Gateway, Hamilton and sale of a significant portion of the developed land. On behalf of the Board and team at Port Otago, we acknowledge Dave's outstanding contribution to the governance of the Group.

Looking ahead

The second half of the financial year will be challenging for port operations as the impact of the Coronavirus on supply chains slow the export of commodities such as logs, dairy and meat from Port Chalmers. CPL is forecast to deliver another stable result from the investment property portfolio with further land sales from the Hamilton development, settling in the second half of the financial year.

For and on behalf of the Board of Directors.

Paul Rea
Chairman
25 February 2020

CONDENSED INCOME STATEMENT

For the six months ended 31 December 2019

	Unaudited 6 months Dec 19 $000	Unaudited 6 months Dec 18 $000	Audited Year to Jun 19 $000
Revenue			
Marine and cargo services	30,180	30,204	68,287
Warehousing and logistics services	6,711	6,323	13,529
Investment property rentals	8,827	8,592	17,227
Sales of investment property inventories	1,106	384	22,661
	46,824	45,503	121,704
Other income			
Gain on sale of investment property and property, plant and equipment	335	610	3,897
Total revenue and other income	**47,159**	**46,113**	**125,601**
Operating expenses			
Staff costs	(16,933)	(16,084)	(34,202)
Purchased materials and services	(12,924)	(11,956)	(25,968)
Cost of sales of investment property inventories	(696)	(270)	(17,656)
Depreciation and amortisation	(5,683)	(4,819)	(10,039)
Total operating expenses	**(36,236)**	**(33,129)**	**(87,865)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax	**10,923**	**12,984**	**37,736**
Financing costs	(1,170)	(1,547)	(2,650)
Share of profit from equity accounted investment	68	106	165
Operating profit before non-operating income and expenses and income tax	**9,821**	**11,543**	**35,251**
Non-operating income and expenses			
Subvention payment	-	-	(101)
Unrealised net change in the value of investment property	-	-	22,839
	-	-	22,738
Profit before income tax	**9,821**	**11,543**	**57,989**
Income tax expense	(2,774)	(3,199)	(8,687)
Profit for the period	**7,047**	**8,344**	**49,302**

The accompanying notes form part of these interim financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 December 2019

	Unaudited 6 months Dec 19 $000	Unaudited 6 months Dec 18 $000	Audited Year to Jun 19 $000
Profit for the period	7,047	8,344	49,302
Other comprehensive income			
Cash flow hedges			
Unrealised movement in hedged interest rate swaps (net of tax) that will be reclassified to the income statement in subsequent periods	194	(257)	(837)
Total comprehensive income for the period	**7,241**	**8,087**	**48,465**

CONDENSED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2019

	Unaudited 6 months Dec 19 $000	Unaudited 6 months Dec 18 $000	Audited Year to Jun 19 $000
Equity at the beginning of the period	508,090	468,075	468,075
Total comprehensive income for the period	7,241	8,087	48,465
Dividends paid to owners	(500)	(500)	(8,450)
Equity at the end of the period	**514,831**	**475,662**	**508,090**

The accompanying notes form part of these interim financial statements.

CONDENSED BALANCE SHEET
As at 31 December 2019

	Unaudited Dec 19 $000	Unaudited Dec 18 $000	Audited Jun 19 $000
Current assets			
Cash and cash equivalents	525	449	142
Trade and other receivables	15,562	15,966	15,038
Investment property inventories	33,078	38,127	28,829
Property held for sale	2,719	-	2,105
Maintenance inventories	1,395	1,320	1,381
Income tax receivable	1,037	-	-
	54,316	55,862	47,495
Non-current assets			
Investment property	342,080	318,561	334,120
Property, plant and equipment	229,232	215,615	212,826
Intangible assets	5,578	4,887	5,895
Equity accounted investments	2,071	1,938	2,003
Other financial assets	-	3	-
	578,961	541,004	554,844
Total assets	**633,277**	**596,866**	**602,339**
Current liabilities			
Trade and other payables	10,406	5,722	11,952
Borrowings	12,375	-	930
Employee entitlements	4,449	4,445	5,490
Provisions	297	1,439	267
Derivative financial instruments	691	1,768	636
Lease liabilities	97	-	-
Income tax payable	-	446	3,150
	28,315	13,820	22,425
Non-current liabilities			
Borrowings	70,650	91,060	54,750
Employee entitlements	966	910	943
Derivative financial instruments	1,210	935	1,534
Lease liabilities	2,290	-	-
Deferred tax liabilities	15,015	14,479	14,597
	90,131	107,384	71,824
Total liabilities	**118,446**	**121,204**	**94,249**
Equity			
Share capital	20,000	20,000	20,000
Reserves	494,831	455,662	488,090
Total equity	**514,831**	**475,662**	**508,090**
Total equity and liabilities	**633,277**	**596,866**	**602,339**

The accompanying notes form part of these interim financial statements.

CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

	Unaudited 6 months Dec 19 $000	Unaudited 6 months Dec 18 $000	Audited Year to Jun 19 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue	35,008	34,196	82,608
Investment property rentals	9,381	9,085	16,519
Sales of investment property inventories	1,903	384	22,769
Interest received	200	71	197
Cash was applied to:			
Payments to employees and suppliers	(30,777)	(30,733)	(60,625)
Expenditure on investment property inventories	(7,286)	(7,442)	(15,105)
Interest paid	(1,077)	(1,290)	(2,033)
Subvention payments	-	-	(101)
Income tax payments	(6,618)	(7,388)	(9,830)
Net GST received / (paid)	(161)	2,149	1,530
Net cash flow surplus (deficit) from operating activities (Note 6)	**573**	**(968)**	**35,929**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment	496	214	235
Sale of investment property	2,722	1,060	14,836
Advances from (to) related parties	(2,129)	(164)	1,951
Cash was applied to:			
Purchase of property, plant and equipment	(19,352)	(11,122)	(14,501)
Purchases and improvements to investment property	(8,390)	(1,460)	(7,294)
Interest capitalised	(282)	(288)	(861)
Net cash flows used in investing activities	**(26,935)**	**(11,760)**	**(5,634)**
Cash flows from financing activities			
Cash was provided from:			
Net proceeds from borrowings	27,345	13,425	(21,955)
Cash was applied to:			
Dividends paid	(500)	(500)	(8,450)
Repayment of lease liabilities	(100)	-	-
Net cash flows from financing activities	**26,745**	**12,925**	**(30,405)**
Increase (decrease) in cash held	383	197	(110)
Cash held at beginning of period	142	252	252
Cash held at end of period	**525**	**449**	**142**

The accompanying notes form part of these interim financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2019 (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 2019.

New and amended standards adopted by the Group - NZ IFRS 16 Leases

In accordance with the transition provision in NZ IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 July 2019. Comparative information has not been restated. On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in each lease which is immaterially different from the incremental borrowing rate. The weighted average interest rate applied to lease liabilities on 1 July 2019 was 6.89%. The right-of-use assets within Property, Plant and Equipment were measured at the amount equal to the lease liability at the transition date of $2,487,000. The net impact on retained earnings on 1 July 2019 was nil. In applying NZ IFRS 16, the Group has continued to account for lease payments on operating leases with a lease term of 12 months or less in the income statement on a straight-line basis over the lease term.

Comparatives

Certain immaterial adjustments have been made to the prior period comparatives to align with the current period disclosure.

3. 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.

4. Investment property valuation

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2019. 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.

5. 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.

6. Reconciliation of operating cash flows

	6 months Dec 19 $000	6 months Dec 18 $000	Year to Jun 19 $000
The reconciliation between profit and the cash flows from operating activities is:			
Profit for the period	7,047	8,344	49,302
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	-	-	(22,839)
Depreciation and amortisation	5,683	4,819	10,039
Movement in non-current employee entitlements	23	-	33
Movement in deferred tax	343	274	617
Plus/(less) items classified as investing activities:			
Gain on sale of property, plant and equipment	(13)	(395)	(415)
Gain on sale of investment property	(322)	(183)	(3,450)
Share of surpluses retained by joint ventures	(68)	(106)	(165)
Movement in working capital items:			
Trade and other receivables	(900)	(1,094)	790
Trade and other payables	(1,839)	240	4,033
Current employee entitlements	(1,041)	(538)	507
Provisions	30	(994)	(2,166)
Income tax payable	(4,187)	(4,463)	(1,760)
Maintenance inventories	(14)	(12)	(73)
Investment property inventories	(6,590)	(7,174)	2,551
Movement in working capital items classified as investing activities	2,421	314	(1,075)
Net cash flow surplus (deficit) from operating activities	**573**	**(968)**	**35,929**

7. Commitments

At 31 December 2019 the Group had commitments/approvals for capital expenditure of $11.55 million (31 December 2018: $10.37 million, 30 June 2019: $22.58 million) which relates to purchases and refurbishments of port assets and investment property.

8. Contingencies

There are no contingent liabilities at 31 December 2019 other than those arising in the normal course of business.

9. Events after balance date

Dividends

On 25 February 2020 the directors declared an interim dividend of $4.5 million.

DIRECTORY

Directors

David Faulkner Chair (retired 31 December 2019)
Paul Rea Chair
Tom Campbell
Tim Gibson
Pat Heslin Deputy Chair
Jane Taylor

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