Interim Report

For the six months ended 31 December 2017

PORT OTAGO LIMITED

Overview

Group results

	Six months Dec 2017 $million	Six months Dec 2016 $million
Total revenue and other income	52.3	37.5
Operating profit	14.3	8.6
Profit for the period	10.4	6.1
Net cash flows from operating activities	14.2	5.1
Total assets	543	511
Shareholder’s equity	443	408
Equity ratio	82%	80%
Trade:		
Container throughput (TEU)	97,000	78,000
Conventional cargo volume (000 tonnes)	907	788
Number of vessel arrivals	247	226

Half year review from the Chair

Port Otago Limited continues to be a key enabler of economic growth in the region.

Port Otago is an integral part in developing the supply chain from the customer to the port and on to the ultimate consumer. People living and working within the geographical footprint connected by Port Otago may not realise how often they see something that has come through the port. It is also why the Board must look to the long term as well as here and now because of the key role the port plays in regional supply chains.

Like all business, we are constantly looking at what we can do to help all our customers move their cargo to their key markets or give their guests on a cruise liner the best possible experience through the port.

Investing in people and getting everyone home safely every day

This Board alongside the new Chief Executive and his team are applying decision making vigour to our investment in our people as is done for investment in plant and infrastructure development. We want the best people who feel a great sense of pride in working for Port Otago. The greatest asset of Port Otago is its people; it takes a truly committed workforce to deliver to our customers. It is our people who also live, work and contribute to the communities we serve that ultimately benefit from the performance of Port Otago. That people focus means every person working for Port Otago and every person who steps on to any of the port sites or infrastructure commits to making sure that they and their colleagues all get home safely to their families at the end of each shift. While we have had a very busy year to date we are ensuring that the increased activity does not lead to a reduction in the focus on safety.

Preparing for the next generation and investing in our infrastructure

Increasingly ports need to invest in the infrastructure required to be a highly efficient and smart link in the supply chain. For Port Otago this might mean increased storage options for logs, investing in the further development of stores for dairy products or a visitor centre for tourists off cruise ships to name but a few. The benefits of past decisions are paid in dividends today and into the future through our strong balance sheet to enable ongoing investments in the business. There are major projects and initiatives underway in all parts of the business to make sure the port is fit for purpose and able to respond to the changing demands of the market and customers.

The current major development of the $21 million wharf extension project at Port Chalmers is the single largest development in the history of Port Otago. This demonstrates the confidence the Board has in the current performance and future of the business. We are pleased that the project is ahead of schedule with the piling on track to be completed before the end of May 2018, not July as previously indicated.

Our dredge, the New Era, continued to deepen the shipping channel to Port Chalmers towards our target of 14 metres chart datum during the period. Repairs to the New Era dredge pump motor are required before the deepening project can be completed and it is anticipated that dredging will recommence in March with the 14 metre channel being available for shipping shortly afterwards.

Being a good neighbour

We want to thank the West Harbour community for the understanding that has been shown throughout the wharf extension project. The Chief Executive and the leadership team alongside our build partners HEB Construction have worked extremely hard to reduce the noise and dust effects particularly during piling. Mitigation measures have been used throughout and this included installing state of the art permanent noise monitoring in Careys Bay to real-time record events so we can learn and adapt to improve outcomes for our neighbours during the wharf construction and into the future with our normal day to day activities.

One of the most important actions we have taken is to get out into the community to listen, communicate what is happening and for how long. We won't get it right all the time but we are working hard to do so.

Partnering with our communities and stakeholders

Port Otago has worked with its neighbours to introduce the voluntary speed limit through the main street of Port Chalmers of 30 kilometres an hour. We have worked with transport operators and customers to make this happen, resulting in significantly reduced speed in the main street, great for our neighbourhood.

Another initiative in the past months has been reviewing who we do business with whether it be catering or maintenance or bigger projects. This is the type of 'social procurement' that our people, customers, partners, communities and shareholders want to see.

Looking at the numbers

A $10.4 million tax-paid result has been delivered by the Port Otago Group for the six months ended 31 December 2017. This is up 69% compared to $6.1 million in the comparative six month period last year and results from higher cargo volumes and land sales from the Te Rapa Gateway development in Hamilton.

Port operations revenue is up 19% to $35.8 million with containerised cargo and bulk conventional cargoes all seeing an uplift in volume. The port has also benefited from a solid start to the cruise ship season.

Land sales from the Te Rapa Gateway development in Hamilton of $8.8 million were settled less $6.3 million cost of sales expense for the investment property inventories, resulting in a net contribution of $2.5 million. No land sales were recognised in the comparative six month period last year.

Operating expenses, excluding the cost of sales of investment property inventories, were up 10% driven by the increased operating activity.

Port Operations EBITDA (earnings before interest, tax, depreciation and amortisation) of $11.5 million is up 42% compared to $8.1 million.

Container throughput was up 25% on the previous comparative period to 97,300 teu (twenty foot equivalent units). Within this total, export volumes were up 17% stemming from the favourable spring weather conditions in the lower South Island. Import volumes, particularly for the agricultural sector were up 24%. Port Otago also saw an increased volume of tranship containers for the six months where shipping lines repatriated empty containers from Australia, through Port Chalmers and on to Asia.

Conventional cargo volumes were up 15% to 907,000 tonnes with log exports from Dunedin and Port Chalmers increasing by 19% to 580,000 tonnes. A record full year log volume in excess of 1 million tonnes will be achieved if the current export volume trend continues.

During the six month period, 247 vessels called at Port Otago compared to 226 for the previous corresponding period. The cruise season has started strongly with 33 arrivals, up 12 on last year with this period not experiencing any cruise visit cancellations due to

weather or schedule changes. Thanks must go to our people who maintained our operational standards with increased cargo volumes and vessel arrivals particularly when multiple cruise ships were in port.

Some reduction in container volume is expected in the second half of the financial year as the drought conditions in Otago and Southland result in the agricultural sector destocking earlier than usual. That said we are anticipating full-year cargo volumes to be favourable to the 2017 financial year.

Chalmers Properties Limited (CPL)

CPL achieved an EBITDA of $9 million compared to $6.5 million in the previous corresponding period. This variance was the result of the net contribution from land sales in Te Rapa Gateway with the investment property portfolio in Dunedin and Auckland providing a steady return.

Two of the six units in the office/warehouse unit development in Te Rapa Gateway completed last year were leased during the period with strong interest for the remaining units. The Board remains confident that these investment properties to be retained in Te Rapa Gateway will provide long term diversification to the investment property portfolio.

The third stage of land development in Te Rapa Gateway also commenced during the period which will deliver a further 17 hectares of land available for sale. The requirement to commence the third stage was driven by lower available inventory levels and strong demand for developed land.

The investment property portfolio in the CPL group will continue to deliver a diversified return for the Group with further agreed land sales from Te Rapa Gateway anticipated to settle before balance date.

Interim dividend

An interim dividend of $3.5 million, the same as last year, will be paid to our shareholder, the Otago Regional Council, on 15 February 2018.

Directors

John Harvey retired from the Board in December following a nine year contribution to the Company. John was Chairman of the Port Otago Audit Committee and we acknowledge his governance skill and experience which he brought to the Board. Tom Campbell from Invercargill has subsequently been appointed as a Director.

Looking ahead

We are responding to our logging customers' needs by providing additional storage in Dunedin before the end of the financial year. The port is also playing a role in the discussions about the future of the Harbourside area in Dunedin, a project we support. This will take time and Port Otago has welcomed the opportunity to have a seat at the table.

For and on behalf of the Board of Directors.

David Faulkner
Chairman
9 February 2018

Condensed income statement

For the six months ended 31 December 2017

	Unaudited 6 months Dec 17 $000	Unaudited 6 months Dec 16 $000	Audited Year to Jun 17 $000
Revenue			
Port operations	35,796	29,988	67,826
Investment property rentals	7,717	7,475	14,761
	43,513	37,463	82,587
Other income			
Sales of investment property inventories	8,814	-	6,944
Gain on sale of investment property and property, plant and equipment	7	-	86
Total revenue and other income	**52,334**	**37,463**	**89,617**
Operating expenses			
Staff costs	(15,652)	(14,688)	(30,685)
Purchased materials and services	(9,925)	(8,213)	(18,821)
Cost of sales of investment property inventories	(6,320)	-	(5,449)
Depreciation and amortisation	(4,548)	(4,400)	(8,663)
Total operating expenses	**(36,445)**	**(27,301)**	**(63,618)**
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax	**15,889**	**10,162**	**25,999**
Financing costs	(1,701)	(1,540)	(2,674)
Share of profit from equity accounted investment	133	11	80
Operating profit before non-operating income and expenses and tax	**14,321**	**8,633**	**23,405**
Non-operating income and expenses			
Subvention payment	-	-	(101)
Unrealised net change in the value of investment property	-	-	19,870
Unrealised net change in value of interest rate swaps	-	(30)	(30)
	-	(30)	19,739
Profit before income tax	**14,321**	**8,603**	**43,144**
Income tax expense	(3,967)	(2,474)	(4,444)
Profit for the period	**10,354**	**6,129**	**38,700**

The accompanying notes form part of these interim financial statements.

Condensed statement of comprehensive income

For the six months ended 31 December 2017

	Unaudited 6 months Dec 17 $000	Unaudited 6 months Dec 16 $000	Audited Year to Jun 17 $000
Profit for the period	10,354	6,129	38,700
Cash flow hedges			
Unrealised movement in hedged interest rate swaps net of tax	(256)	1,212	946
Total comprehensive income for the period	**10,098**	**7,341**	**39,646**

Condensed statement of changes in equity

For the six months ended 31 December 2017

	Unaudited 6 months Dec 17 $000	Unaudited 6 months Dec 16 $000	Audited Year to Jun 17 $000
Equity at the beginning of the period	433,552	401,706	401,706
Total comprehensive income for the period	10,098	7,341	39,646
Distribution to owners			
Dividends	(500)	(800)	(7,800)
Equity at the end of the period	**443,150**	**408,247**	**433,552**

The accompanying notes form part of these interim financial statements.

Condensed balance sheet

As at 31 December 2017

	Unaudited Dec 17 $000	Unaudited Dec 16 $000	Audited Jun 17 $000
Current assets			
Cash and cash equivalents	278	469	525
Trade and other receivables	16,243	13,898	13,003
Investment property inventories	20,489	23,252	25,696
Property held for sale	2,145	-	2,145
Maintenance inventories	1,144	1,214	1,196
Derivative financial instruments	-	607	32
Finance leases	-	53	-
	40,299	39,493	42,597
Non-current assets			
Investment property	304,982	280,821	302,437
Property, plant and equipment	191,312	182,715	181,452
Intangible assets	5,168	5,371	5,429
Equity accounted investments	1,560	1,485	1,427
Derivative financial instruments	58	692	254
Other financial assets	22	42	32
	503,102	471,126	491,031
Total assets	**543,401**	**510,619**	**533,628**
Current liabilities			
Trade and other payables	8,031	6,461	7,388
Employee entitlements	4,574	3,983	4,896
Derivative financial instruments	596	616	648
Income tax payable	1,914	194	1,987
	15,115	11,254	14,919
Non-current liabilities			
Borrowings (secured)	68,385	72,060	68,420
Employee entitlements	952	981	932
Derivative financial instruments	351	251	185
Deferred tax liabilities	15,448	17,826	15,620
	85,136	91,118	85,157
Total liabilities	**100,251**	**102,372**	**100,076**
Equity			
Share capital	20,000	20,000	20,000
Reserves	423,150	388,247	413,552
Total equity	**443,150**	**408,247**	**433,552**
Total equity and liabilities	**543,401**	**510,619**	**533,628**

The accompanying notes form part of these interim financial statements.

Condensed statement of cash flows

For the six months ended 31 December 2017

	Unaudited 6 months Dec 17 $000	Unaudited 6 months Dec 16 $000	Audited Year to Jun 17 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations revenue	33,112	28,941	66,936
Investment property rentals	6,942	7,150	14,662
Sales of investment property inventories	8,874	-	6,963
Interest received	64	24	160
Cash was applied to:			
Payments to employees and suppliers	(26,238)	(24,154)	(49,132)
Expenditure on investment property inventories	(2,820)	(2,178)	(9,686)
Interest paid	(1,628)	(1,569)	(2,450)
Subvention payments	-	-	(101)
Income tax payments	(4,125)	(3,794)	(6,073)
Net GST received	39	637	409
Net cash flows from operating activities (Note 6)	**14,220**	**5,057**	**21,688**
Cash flows from investing activities			
Cash was provided from:			
Sale of property, plant and equipment	378	166	251
Sale of investment property	-	-	190
Advances from (to) related parties	352	(176)	298
Repayment of lessee improvements	-	102	155
Cash was applied to:			
Purchase of property, plant and equipment	(14,167)	(7,846)	(11,266)
Purchases and improvements to investment property	(447)	(6,720)	(9,642)
Interest capitalised	(48)	(67)	(462)
Net cash flows used in investing activities	**(13,932)**	**(14,541)**	**(20,476)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings	-	20,650	20,650
Cash was applied to:			
Repayment of borrowings	(35)	(10,990)	(14,630)
Dividends paid	(500)	(800)	(7,800)
Net cash flows from financing activities	**(535)**	**8,860**	**(1,780)**
Increase (decrease) in cash held	(247)	(624)	(568)
Cash held at beginning of period	525	1,093	1,093
Cash held at end of period	**278**	**469**	**525**

The accompanying notes form part of these interim financial statements.

Notes to the condensed financial statements

For the six months ended 31 December 2017 (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 2017.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2017, as described in those annual financial statements.

To ensure consistency with the current period, comparative figures have been restated where appropriate.

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 2017. 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 17 $000	6 months Dec 16 $000	Year to Jun 17 $000
The reconciliation between profit and the cash flows from operating activities is:			
Profit for the period	10,354	6,129	38,700
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	-	-	(19,870)
Depreciation and amortisation	4,548	4,400	8,663
Movement in the fair value of interest rate swaps and foreign exchange contracts	-	30	30
Movement in non-current employee entitlements	20	(121)	(487)
Movement in deferred tax	(84)	(5)	(2,107)
Plus/(less) items classified as investing activities:			
Gain on sale of property, plant and equipment	10	-	(34)
Gain on sale of investment property	-	-	(34)
Share of surpluses retained by joint ventures	(133)	(11)	(80)
Movement in working capital items:			
Trade and other receivables	(3,829)	(1,564)	(837)
Trade and other payables	422	(481)	766
Current employee entitlements	(321)	(290)	622
Income tax payable	(73)	(1,315)	479
Maintenance inventories	52	2	20
Investment property inventories	3,558	(2,178)	(4,218)
Movement in working capital items classified as investing activities	(304)	461	75
Net cash flows from operating activities	**14,220**	**5,057**	**21,688**

7. Commitments

At 31 December 2017 the Group had commitments/ approvals for capital expenditure of $26.3 million (31 December 2016: $9.1 million, 30 June 2017: $26.3 million) which relates to purchases and upgrades of port and property assets.

8. Contingencies

There are no contingent liabilities at 31 December 2017 other than those arising in the normal course of business.

9. Events after balance date

Dividends

On 9 February 2018 the directors declared an interim dividend of $3.5 million.

Directory

Directors

David Faulkner Chairman
Paul Rea Deputy Chairman
Tim Gibson
Pat Heslin
Ed Johnson
John Harvey (retired 31 December 2017)
Tom Campbell (appointed 1 February 2018)

Leadership Team

Kevin Winders Chief Executive
Stephen Connolly Chief Financial Officer
Lynn Smillie GM People
Gavin Schiller Head of Safety
Kevin Kearney GM Operations
Sean Bolt GM Marine & Infrastructure
Peter Brown Commercial Manager
Dylan Lee Chief Information Officer
David Chafer GM Property
Deanna Matsopoulos Supply Chain Manager
Jodi Taylor Executive Assistant

Address

15 Beach Street
PO Box 8, Port Chalmers
Phone (03) 472-7890
Facsimile (03) 472-7891
Email pol@portotago.co.nz
www.portotago.co.nz

Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

PORT OTAGO LIMITED