Condensed Statement of Cash Flows

For the six months ended 31 December 2014

	Unaudited 6 months Dec 2014 $000	Unaudited 6 months Dec 2013 $000	Audited Year to Jun 2014 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from port operations	28,094	28,345	62,611
Rental income	7,449	7,499	14,437
Dividends received	3,165	-	317
Interest received	379	270	487
Cash was disbursed to:			
Payments to employees and suppliers	(24,046)	(23,374)	(44,529)
Interest paid	(2,889)	(2,818)	(6,105)
Subvention payments	-	-	(103)
Income tax paid	(3,827)	(4,413)	(6,736)
Net GST received/(paid)	480	578	260
Net cash flows from operating activities (Note 5)	**8,805**	**6,087**	**20,639**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of available-for-sale investments	62,511	-	-
Proceeds from sale of property, plant and equipment	468	210	183
Proceeds from sale of investment property	24,655	7,197	9,566
Repayment of lessee improvements	83	75	154
Cash was applied to:			
Acquisition of property, plant and equipment	(3,202)	(4,308)	(15,719)
Acquisition and improvements to investment property	(22,866)	(29,397)	(31,748)
Advances to subsidiaries	-	-	(188)
Interest capitalised	(82)	(282)	(582)
Net cash flows used in investing activities	**61,567**	**(26,505)**	**(38,334)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings	-	33,173	49,747
Cash was applied to:			
Repayment of borrowings	(56,882)	(11,000)	(25,614)
Dividends paid	(1,900)	(1,900)	(7,100)
Net cash flows from financing activities	**(58,782)**	**20,273**	**17,033**
Increase (decrease) in cash held	11,590	(145)	(662)
Cash held at beginning of period	568	1,230	1,230
Cash held at end of period	**12,158**	**1,085**	**568**

The accompanying notes form part of these interim financial statements.

Notes to the Condensed Financial Statements

For the six months ended 31 December 2014 (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 ("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 have been prepared using the New Zealand Dollar as the functional and presentation 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 2014.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2014, as described in those annual financial statements.

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

3. Investment property valuation

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2014. 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.

4. 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.

Notes to the Condensed Financial Statements (Continued)

For the six months ended 31 December 2014 (Unaudited)

5. Reconciliation of consolidated operating cash flows

	Unaudited 6 months Dec 2014 $000	Unaudited 6 months Dec 2013 $000	Audited Year to Jun 2014 $000
The reconciliation between profit and the cash flow from operating activities is:			
Profit for the period	22,030	5,746	31,824
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	-	-	(14,977)
Depreciation and amortisation	4,074	3,810	7,655
Movement in the fair value of interest rate swaps	359	664	(1,665)
Movement in non-current employee entitlements	(96)	(59)	(400)
Movement in deferred tax	(1,552)	(412)	(442)
Plus/(less) items classified as investing activities:			
Loss/(gain) on sale of available-for-sale investments	(11,869)	-	-
Loss/(gain) on disposal of property, plant and equipment	(468)	14	42
Loss/(gain) on disposal of investment property	(827)	(405)	(628)
Share of surpluses retained by joint ventures	(149)	(42)	(120)
Movement in working capital items:			
Trade and other receivables	(2,644)	(825)	(94)
Trade and other payables	(725)	21	189
Current employee entitlements	90	(157)	(154)
Income tax	(545)	(1,985)	(796)
Inventories	25	13	(65)
Movement in working capital items classified as investing activities	1,102	(296)	270
Net cash flows from operating activities	**8,805**	**6,087**	**20,639**

Notes to the Condensed Financial Statements (Continued)

For the six months ended 31 December 2014 (Unaudited)

6. Commitments

At 31 December 2014 the Group had commitments/approvals for capital expenditure of $1.0 million (31 December 2013: $10.8 million, 30 June 2014: $4.42 million) which relates to purchases and upgrades of port's assets.

7. Contingencies

Apart from the matter noted below, there are no other material contingent liabilities at 31 December 2014 other than those arising in the normal course of business.

Tax deductibility of acoustic treatment expenditure

Port Otago incurs expenditure to acoustically treat residential properties in Port Chalmers to comply with obligations under the Port Noise Mitigation Plan. The Inland Revenue Department maintains that the expenditure is capital in nature which is contrary to the position of Port Otago and supported by professional advice. An estimated additional income tax of $250,000 excluding interest and penalties, if any, would be payable should the expenditure not be deductible. A formal dispute resolution process is continuing.

8. Events after balance date

Dividends

On 11 February 2015 the directors declared an interim dividend of $3.25 million.

Port Otago Limited – Directory

Directors

David Faulkner	Chairman
Ross Black	Deputy Chairman
John Harvey	
Ed Johnson	
Vincent Pooch	(Resigned 31 January 2015)
Paul Rea	

Executive

Geoff Plunket — Chief Executive

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Email pol@portotago.co.nz
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Bankers

ANZ National Bank Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

www.portotago.co.nz

Interim Report

For the six months ended 31 December 2014

Overview of Group Results

	6 months Dec 2014 $million	6 months Dec 2013 $million
Total revenue and other income	41.5	36.6
Operating profit before income tax	13.1	8.4
Profit for the period	22.0	5.7
Net cash flows from operating activities	8.8	6.1
Total assets	455	470
Shareholder equity	365	322
Equity ratio	80%	69%
Net asset backing per share	$18.25	$16.11
Trade:		
Container throughput (TEU)	77,400	80,400
Conventional cargo volume (000 tonnes)	727	673
Number of vessel arrivals	235	233

Chairman's Half Year Review

Financial results

The Port Otago Group's unaudited tax-paid result of $22.0 million for the six months ended 31 December 2014 compares to $5.7 million in the comparative six month period last year. This result includes an underlying port operations and investment property profit after-tax of $8.2 million, which is an increase of 27% from the last comparative period.

The after-tax contribution from the sale of the Lyttelton Port Company Limited (LPC) shares was $13.8 million which included a gain on the sale and final dividend less holding and disposal costs.

Interim dividend

An interim dividend of $3.25 million, an increase from the $2.5 million paid last year, will be paid on 12 February 2015 to our shareholder, the Otago Regional Council.

Financial position

The Group equity ratio has increased to 80% following the LPC share sale and provides Port Otago with the platform for continued investment in the port to future-proof port operations. $57 million of borrowings have been repaid which reduces Group borrowings to $63 million from $120 million at 30 June 2014.

Port operations - trade

Export and import volumes of 74,000 TEU (twenty foot equivalent units) were in line with the comparative period. Tranship volumes were down 2,900 TEU as the comparative period included one full vessel exchange. This occurs where the entire container volume from one vessel is off-loaded and re-loaded on to another vessel when a vessel is changing its trade lane. Including tranships, the total container throughput of 77,400 TEU was 4% lower than the 80,400 TEU throughput recorded in the previous corresponding period.

There were 235 vessel calls for the six months compared to 233 for the previous corresponding period. Cruise ship visits increased to 30 vessels from 25 in the comparative period.

Conventional cargo tonnes increased 8% to 727,000 tonnes. Log exports were up 6% to 422,000 tonnes with cement and fertiliser imports also increasing.

Port operations - financial

Earnings before interest, tax, depreciation and amortisation (EBITDA) for port operations were $8.7 million, a decrease of 1% on the comparative period. Revenue from warehouse storage activities and conventional cargo tonnes offset lower container revenue resulting in port operations revenue increasing by 1%.

Port operations – capital expenditure and port development

Following the successful integration of our new tug, the Taiaroa, into the Port's towage operation, the two older tugs, Rangi and Karetai, were sold and generated a $0.4 million gain on disposal. The sale price achieved is a tribute to the quality of the original build by the Otago Harbour Board and the maintenance of these vessels during their 40 years' service on the Otago harbour.

Preparations to commence deepening the channel to Port Chalmers are continuing. Various scenarios are being considered which will deliver a 14 metre channel in a timeframe our customers require. There are a range of associated projects, including berth deepening and extension of the multi-purpose wharf, which will be progressed in conjunction with channel deepening.

Health and safety

There was one Lost Time Injury (LTI) during this six month period. Our LTI frequency rate has reduced to 6.6 per million hours worked, compared to 11 per million hours worked at 30 June 2014. The Medically Treated Injury (MTI) frequency rate increased to 23.2 per million hours worked from 21.8 per million hours worked at 30 June 2014. This combined to reduce the Total Injury Frequency Rate to 30 per million hours worked.

A further initiative was the introduction of the electronic health and safety portal during the period. This portal, located on the company intranet, provides access to a central repository for all health and safety documentation and is available to all staff.

Staff

A 3-year Collective Employment Agreement has been agreed for the period through to 2017. There will be fresh challenges in the coming year but we are confident that the dedication and determination of staff will remain pivotal to the success of Port Otago.

Chalmers Properties Limited (CPL)

The operating profit before property disposals and tax, for the CPL investment property portfolio increased to $5.4 million, up 8% from the previous corresponding period.

During this period, we negotiated and settled a partition agreement with one of our joint venture partners which resulted in the Group purchasing their share of industrial zoned land on the eastern side of the Te Rapa by-pass in Hamilton. As part of the partition agreement, our joint venture partner acquired our share in the employment and commercially zoned land on the western side of the Te Rapa by-pass which resulted in a gain of $0.8 million for the Group. This agreement allows the Group to actively manage the industrial land development to meet market demand and further simplifies our investment in the Hamilton area.

The sale of an Auckland investment property at Dalgety Drive settled during the six month period for $12.4 million. The proceeds of the sale will be reinvested into an appropriate property which meets the Group's investment strategy.

Construction of the $2.7 million office and warehouse for CHEP New Zealand, in the Dunedin industrial precinct, was also completed.

Directors

In January 2015, Vincent Pooch resigned as a Director following a 12 year involvement with the Company and its subsidiaries. On behalf of the Board I would like to thank Vincent for his contribution to the Group.

Outlook

The sale of the LPC shares and the continued good performance of the diverse Port Otago Group sees us well-positioned to make further investments in port infrastructure in line with customer requirements.

The full year contribution from CPL will be down on last year following the sale of the Dalgety Drive, Auckland, investment property which will affect investment property rentals. CPL is maintaining the strategy of improving the quality and returns from its property portfolio as opportunities arise.

On behalf of the Board of Directors

David Faulkner
Chairman
11 February 2015

Condensed Income Statement

For the six months ended 31 December 2014

	Unaudited 6 months Dec 2014 $000	Unaudited 6 months Dec 2013 $000	Audited Year to Jun 2014 $000
Revenue			
Port operations	30,002	29,563	63,281
Investment property rental	7,052	6,645	13,675
Dividend income	3,165	-	317
	40,219	36,208	77,273
Other income			
Gain on disposal of property, plant and investment property	1,295	406	628
Total revenue and other income	**41,514**	**36,614**	**77,901**
Expenses			
Staff costs	(13,382)	(12,860)	(25,671)
Fuel and electricity	(1,508)	(1,632)	(3,300)
Purchased materials and services	(7,140)	(7,297)	(14,856)
Restructuring costs	(135)	-	-
Depreciation and amortisation	(4,074)	(3,810)	(7,655)
Total expenses	**(26,239)**	**(25,599)**	**(51,482)**
Net financing costs	(2,320)	(2,631)	(5,627)
Share of profit from equity accounted investment	149	42	250
	(2,171)	(2,589)	(5,377)
Operating profit before taxation	**13,104**	**8,426**	**21,042**
Non-operating income and expenses			
Gain on sale of available-for-sale investments	11,015	-	-
Unrealised net change in value of investment property	-	-	15,574
Subvention payment	-	-	(103)
Impairment of investment property inventory	-	-	(597)
Future sales value contract adjustment	-	-	(260)
Unrealised net change in value of interest rate swaps	(359)	(664)	1,665
	10,656	(664)	16,279
Profit before income tax	**23,760**	**7,762**	**37,321**
Income tax benefit/(expense)			
Current tax	(3,282)	(2,428)	(6,032)
Deferred tax	1,552	412	535
	(1,730)	(2,016)	(5,497)
Profit for the period	**22,030**	**5,746**	**31,824**

Condensed Statement of Comprehensive Income

For the six months ended 31 December 2014

	Unaudited 6 months Dec 2014 $000	Unaudited 6 months Dec 2013 $000	Audited Year to Jun 2014 $000
Profit for the period	22,030	5,746	31,824
Available-for-sale financial assets			
Unrealised increase in the value of share investments	-	2,374	5,539
Cash flow hedges			
Unrealised movement in hedged interest rate swaps (net of tax)	21	1,765	266
Total comprehensive income for the period	**22,051**	**9,885**	**37,629**

The accompanying notes form part of these interim financial statements.

Condensed Statement of Changes in Equity

For the six months ended 31 December 2014

	Unaudited 6 months Dec 2014 $000	Unaudited 6 months Dec 2013 $000	Audited Year to Jun 2014 $000
Equity at the beginning of the period	344,838	314,309	314,309
Total comprehensive income for the period	22,051	9,885	37,629
Distribution to owners			
Dividends	(1,900)	(1,900)	(7,100)
Equity at the end of the period	**364,989**	**322,294**	**344,838**

Condensed Balance Sheet

As at 31 December 2014

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Current assets			
Cash and cash equivalents	12,158	1,085	568
Trade and other receivables	13,159	11,118	10,328
Inventories	714	661	739
Property held for sale	11,627	-	17,518
Investment property inventories	12,863	8,117	6,294
Derivative financial instruments	48	-	-
Finance leases	180	162	171
	50,749	21,143	35,618
Non-current assets			
Property, plant and equipment	159,145	152,998	159,879
Investment property	236,943	239,914	232,659
Property held for sale	-	1,420	8,023
Equity accounted investments	1,308	1,081	1,159
Shares in listed companies	-	47,476	50,642
Derivative financial instruments	187	-	205
Other financial assets	81	279	90
Finance leases	252	501	344
Intangible assets	6,264	4,949	5,761
	404,180	448,618	458,762
Total assets	**454,929**	**469,761**	**494,380**
Current liabilities			
Trade and other payables	5,452	5,749	6,177
Borrowings (secured)	-	2,671	11,852
Employee entitlements	3,667	3,574	3,577
Derivative financial instruments	651	1,078	772
Provisions	-	-	260
Income tax	696	52	1,241
	10,466	13,124	23,879
Non-current liabilities			
Borrowings (secured)	62,700	115,470	107,730
Employee entitlements	1,028	1,465	1,124
Derivative financial instruments	526	32	45
Deferred tax liabilities	15,220	17,376	16,764
	79,474	134,343	125,663
Total liabilities	**89,940**	**147,467**	**149,542**
Equity			
Share capital	20,000	20,000	20,000
Reserves	344,989	302,294	324,838
Total equity	364,989	322,294	344,838
Total equity and liabilities	**454,929**	**469,761**	**494,380**

The accompanying notes form part of these interim financial statements.