Condensed Statement of Cash Flows
For the six months ended 31 December 2016

	Unaudited 6 months Dec 2016 $000	Unaudited 6 months Dec 2015 $000	Audited Year to Jun 2016 $000
Cash flows from operating activities			
Cash was provided from:			
Port operations	28,941	26,017	61,528
Investment property rentals	7,150	7,228	13,335
Sales of investment property inventories	-	1,748	2,293
Interest received	24	205	332
Cash was applied to:			
Payments to employees and suppliers	(24,154)	(26,384)	(48,419)
Expenditure on investment property inventories	(2,178)	-	(3,589)
Interest paid	(1,569)	(1,581)	(1,611)
Subvention payments	-	-	(98)
Income tax paid	(3,794)	(3,453)	(5,617)
Net GST received	637	476	34
Net cash flows from operating activities (Note 6)	**5,057**	**4,256**	**18,188**
Cash flows from investing activities			
Cash was provided from:			
Sales of property, plant and equipment	166	188	1,770
Repayment of lessee improvements	102	92	189
Cash was applied to:			
Purchases of property, plant and equipment	(7,846)	(17,251)	(30,653)
Purchases and improvements to investment property	(6,720)	(1,874)	(8,424)
Advances to related parties	(176)	-	(316)
Interest capitalised	(67)	(25)	(854)
Net cash flows used in investing activities	**(14,541)**	**(18,870)**	**(38,288)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings	20,650	5,530	17,650
Cash was applied to:			
Repayment of borrowings	(10,990)	(8,030)	(9,950)
Dividends paid	(800)	(750)	(7,250)
Net cash flows from financing activities	**8,860**	**(3,250)**	**450**
Increase (decrease) in cash held	(624)	(17,864)	(19,650)
Cash held at beginning of period	1,093	20,743	20,743
Cash held at end of period	**469**	**2,879**	**1,093**

The accompanying notes form part of these interim financial statements.

Notes to the Condensed Financial Statements
For the six months ended 31 December 2016 (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 2016.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2016, 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.

At 1 July 2016, it was determined that capital dredging has an indefinite useful life and would not be depreciated further over the remaining previously estimated useful life. The channel is maintained via maintenance dredging to its original depth and contours and is expensed when incurred.

4. Investment property valuation

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2016. 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.

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.

Notes to the Condensed Financial Statements (Continued)
For the six months ended 31 December 2016 (Unaudited)

6. Reconciliation of operating cash flows

	6 months Dec 2016 $000	6 months Dec 2015 $000	Year to Jun 2016 $000
The reconciliation between profit and the cash flows from operating activities is:			
Profit for the period	6,129	5,482	34,099
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	-	-	(19,957)
Depreciation and amortisation	4,400	4,163	8,127
Movement in the fair value of interest rate swaps	30	98	122
Movement in non-current employee entitlements	(121)	6	108
Movement in deferred tax	(5)	(128)	878
Plus/(less) items classified as investing activities:			
Gain on sale of property, plant and equipment	-	(227)	(168)
Gain on sale of investment property	-	(475)	(597)
Share of surpluses retained by joint ventures	(11)	(71)	(279)
Movement in working capital items:			
Trade and other receivables	(1,564)	(2,838)	(3,513)
Trade and other payables	(481)	(2,125)	(924)
Current employee entitlements	(290)	(281)	348
Income tax	(1,315)	(1,077)	220
Maintenance inventories	2	(45)	(124)
Investment property inventories	(2,178)	1,748	(1,296)
Movement in working capital items classified as investing activities	461	26	1,144
Net cash flows from operating activities	**5,057**	**4,256**	**18,188**

7. Related party transactions

During the period a deed of cancellation was negotiated and settled with Mr Andrew Duncan, the former Chalmers Properties Limited Chief Executive Officer, to cancel a sale and purchase agreement entered into in 2008. The terms of the 2008 sale and purchase agreement required Te Rapa Gateway Limited to sell 3.5 hectares of land in Hamilton to Mr Duncan at a sales price of $81 per m2 plus a share of development costs. At 30 June 2016, 2.5 hectares remained to be settled.

Notes to the Condensed Financial Statements (Continued)
For the six months ended 31 December 2016 (Unaudited)

Under the deed of cancellation, a payment of $400,000 was agreed and paid by the Group to Mr Duncan to cancel the 2008 sale and purchase agreement. The impact of the deed of cancellation on the Group income statement in the current period is an increase in profit before tax of $293,000 with the reversal of previously provided Group share of development costs in relation to the unsettled property.

8. Commitments

At 31 December 2016 the Group had commitments/approvals for capital expenditure of $9.1 million (31 December 2015: $5.8 million, 30 June 2016: $11.47 million) which relates to purchases and upgrades of port and property assets.

9. Contingencies

There are no contingent liabilities at 31 December 2016 other than those arising in the normal course of business.

10. Events after balance date

Dividends

On 15 February 2017 the Directors declared an interim dividend of $3.5 million.

Port Otago Limited – Directory

Directors

David Faulkner	Chairman
Paul Rea	Deputy Chairman, Chairman Health and Safety Governance Committee
John Harvey	Chairman Audit Committee
Tim Gibson	
Pat Heslin	
Ed Johnson	

Executive

Geoff Plunket — Chief Executive

Address
15 Beach Street
PO Box 8
Port Chalmers 9050, Dunedin
Phone (03) 472-7890
Facsimile (03) 472-7891
Email pol@portotago.co.nz
Website 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

www.portotago.co.nz

NEXT GENERATION PORT OTAGO

Interim Report
For the six months ended 31 December 2016

Overview of Group Results

	6 months Dec 2016 $million	6 months Dec 2015 $million
Total revenue and other income	37.5	37.9
Operating profit	8.6	7.8
Profit for the period	6.1	5.5
Net cash flows from operating activities	5.1	4.3
Total assets	511	461
Shareholder equity	408	380
Equity ratio	80%	83%
Trade:		
Container throughput (teu)	78,000	74,000
Conventional cargo volume (000 tonnes)	788	636
Number of vessel arrivals	226	213

Chairman’s Half Year Review

Financial results

The Port Otago Group achieved an unaudited tax-paid result of $6.1 million for the six months ended 31 December 2016. This is an increase of 12% compared to $5.5 million in the comparative six month period last year.

Port operations revenue and investment property rentals were 5% higher than the previous comparative period with higher cargo volumes and vessel calls and increasing yields from the investment property portfolio. The previous comparative period included a net gain of $0.5 million from land sales from the Te Rapa Gateway development in Hamilton. No land sales have been recognised in this six month period. Several property sales from the development are anticipated to settle before 30 June 2017 and will be included in the full year result.

Health and safety

At 31 December 2016, the Total Recordable Injury Frequency Rate (TRIFR) on a rolling 12 month basis was 10.5 per million hours worked which is an improvement on the TRIFR of 12 per million hours worked at 30 June 2016. The goal of a zero harm workplace is very much being maintained with the focus on embedding recent health and safety initiatives into the company.

Interim dividend

An interim dividend of $3.5 million, increased from $3.25 million last year, will be paid to our shareholder, the Otago Regional Council, on 16 February 2017.

Port operations - trade

Container throughput of 77,700 teu (twenty foot equivalent units) was 5% higher with tranship containers 4,200 teu up on the comparative period. Full container exports and imports were in line with the previous corresponding period.

Conventional cargo tonnes were 24% higher than the comparative period at 788,000 tonnes with log exports up 38% to 488,000 tonnes. This is 60% of the last full year volume and if this trend continues will result in a record log export volume.

There were 226 vessel calls for the six months compared to 213 for the previous corresponding period with an increased number of log and container vessels. Cruise vessels were slightly lower although the current cruise season should see more than last year’s 70 cruise vessel arrivals for the full year.

Port operations - financial

Port Operations EBITDA (earnings before interest, tax, depreciation and amortisation) was $8.1 million, an increase of 19% on $6.8 million for the comparative period. Revenue from port operations was $1.3 million higher with increased container and conventional cargo volumes and vessel calls.

Capital expenditure and Next Generation port development

The A shed warehouse was extended to provide a cruise passenger facility as well as increasing the timber container packing capacity at Port Chalmers outside the cruise season. This multi-use facility has been a welcome addition with returning passengers to Port Chalmers commenting on the improved on-wharf facility.

Deepening of the shipping channel to Port Chalmers to 14 metres chart datum is continuing although the estimated completion date of the project is now December 2017. The completion date has slipped from the previously indicated date of September 2017 following maintenance issues with the *New Era* dredge.

The tender process to appoint a contractor to construct the 140 metre wharf extension at Port Chalmers is underway with construction expected to commence in mid-2017 and to be completed by December 2018. This will extend the existing multipurpose berth to 440 metres and provide more flexibility to container operations and the increasing cruise trade.

Chalmers Properties Limited (CPL)

CPL achieved an EBITDA of $6.5 million, which was 10% up on the previous corresponding period. Investment property rentals were 7% higher following developments in Auckland and Dunedin in recent years. The quality of the investment property portfolio has seen CPL maintain a high level of occupancy.

The 4,700m^2 Steel and Tube warehouse development in the Dunedin industrial harbour precinct was completed at the beginning of the 2017 calendar year. The building comprises warehouse, office space and trade shop and has had the foundations of the site reinforced to cater for the required floor loading.

The second stage of the civil works of the Te Rapa Gateway industrial park development in Hamilton was also completed which has provided a further 10.5 hectares of developed land for sale. Land sales of approximately $7 million are anticipated to settle before the 30 June 2017 balance date with CPL also commencing the construction of a multi-unit warehouse development in the Te Rapa Gateway industrial park.


Steel and Tube, Dunedin

Cruise passenger facility, Port Chalmers

Chief Executive Officer

Kevin Winders, formerly Silver Fern Farms chief operating officer, has been appointed as Port Otago’s new chief executive and will take over from Geoff Plunket who is retiring later this year.

Staff

On behalf of the Board I thank all staff for their commitment towards improving our health and safety performance. The loyalty and dedication that is expressed in our day-to-day operating activities is a credit to everyone. This peak activity period will continue to be challenging but the efforts of staff in positively meeting those challenges is fundamental to the on-going success of Port Otago.

Outlook

Port Otago has achieved a strong start to the financial year with the trend towards higher cargo volumes expected to continue in the second half. The full year result will also be supported by additional cruise vessels.

CPL is projected to deliver another steady result from the investment property portfolio in addition to the anticipated developed land sales from the Hamilton development.

For and on behalf of the Board of Directors

David Faulkner
Chairman
15 February 2017

Condensed Income Statement

For the six months ended 31 December 2016

	Unaudited 6 months Dec 2016 $000	Unaudited 6 months Dec 2015 $000	Audited Year to Jun 2016 $000
Revenue			
Port operations	29,988	28,686	63,851
Investment property rentals	7,475	6,963	13,973
	37,463	35,649	77,824
Other income			
Gain on disposal of property, plant and equipment	-	228	228
Sale of investment property inventories	-	1,975	2,950
Total revenue and other income	**37,463**	**37,852**	**81,002**
Operating expenses			
Staff costs	(14,688)	(14,415)	(29,466)
Fuel and electricity	(1,211)	(1,419)	(2,587)
Purchased materials and services	(7,002)	(7,089)	(15,480)
Cost of sales of investment property inventories	-	(1,500)	(2,353)
Depreciation and amortisation	(4,400)	(4,163)	(8,127)
Total operating expenses	**(27,301)**	**(28,586)**	**(58,013)**
Operating profit before finance costs, non-operating income and expenses and tax	**10,162**	**9,266**	**22,989**
Net financing costs	(1,540)	(1,509)	(2,191)
Share of profit from equity accounted investment	11	71	279
Operating profit before non-operating income and expenses and tax	**8,633**	**7,828**	**21,077**
Non-operating income and expenses			
Unrealised net change in value of investment property	-	-	19,957
Subvention payment	-	-	(98)
Unrealised net change in value of interest rate swaps	(30)	(98)	(122)
Total non-operating income and expenses	(30)	(98)	19,737
Profit before tax	**8,603**	**7,730**	**40,814**
Income tax expense	(2,474)	(2,248)	(6,715)
Profit for the period	**6,129**	**5,482**	**34,099**

Condensed Statement of Comprehensive Income

For the six months ended 31 December 2016

	Unaudited 6 months Dec 2016 $000	Unaudited 6 months Dec 2015 $000	Audited Year to Jun 2016 $000
Profit for the period	6,129	5,482	34,099
Cash flow hedges			
Unrealised movement in hedged interest rate swaps net of tax	1,212	225	(342)
Total comprehensive income for the period	**7,341**	**5,707**	**33,757**

Condensed Statement of Changes in Equity

For the six months ended 31 December 2016

	Unaudited 6 months Dec 2016 $000	Unaudited 6 months Dec 2015 $000	Audited Year to Jun 2016 $000
Equity at the beginning of the period	401,706	375,199	375,199
Total comprehensive income for the period	7,341	5,707	33,757
Distribution to owners			
Dividends	(800)	(750)	(7,250)
Equity at the end of the period	**408,247**	**380,156**	**401,706**

Condensed Balance Sheet

As at 31 December 2016

	Unaudited Dec 2016 $000	Unaudited Dec 2015 $000	Audited Jun 2016 $000
Current assets			
Cash and cash equivalents	469	2,879	1,093
Trade and other receivables	13,898	12,865	12,520
Maintenance inventories	1,214	1,137	1,216
Investment property inventories	23,252	12,136	20,618
Property held for sale	-	2,046	2,046
Derivative financial instruments	607	-	-
Finance leases	53	199	155
	39,493	31,262	37,648
Non-current assets			
Investment property	280,821	250,713	273,325
Property, plant and equipment	182,715	170,914	179,183
Intangible assets	5,371	6,113	5,438
Equity accounted investments	1,485	1,429	1,475
Other financial assets	42	61	52
Derivative financial instruments	692	-	-
Finance leases	-	53	-
	471,126	429,283	459,473
Total assets	**510,619**	**460,545**	**497,121**
Current liabilities			
Trade and other payables	6,461	5,423	6,625
Employee entitlements	3,983	3,645	4,273
Derivative financial instruments	616	664	623
Income tax	194	211	1,509
	11,254	9,943	13,030
Non-current liabilities			
Borrowings (secured)	72,060	52,200	62,400
Employee entitlements	981	1,317	1,419
Derivative financial instruments	251	355	1,207
Deferred tax liabilities	17,826	16,574	17,359
	91,118	70,446	82,385
Total liabilities	**102,372**	**80,389**	**95,415**
Equity			
Share capital	20,000	20,000	20,000
Reserves	388,247	360,156	381,706
Total equity	408,247	380,156	401,706
Total equity and liabilities	**510,619**	**460,545**	**497,121**