Condensed Statement of Cash Flows

For the six months ended 31 December 2015

	Unaudited 6 months Dec 2015 $000	Unaudited 6 months Dec 2014 $000	Audited Year to Jun 2015 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from port operations	26,017	28,094	64,764
Rental income	7,228	7,449	13,944
Dividends received	-	3,165	3,165
Interest received	205	379	762
Cash was applied to:			
Payments to employees and suppliers	(26,384)	(23,192)	(42,479)
Interest paid	(1,581)	(2,889)	(4,612)
Subvention payments	-	-	(95)
Income tax paid	(3,453)	(3,827)	(6,274)
Net GST received/(paid)	476	480	(425)
Net cash flows from operating activities (Note 5)	**2,508**	**9,659**	**28,750**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of available-for-sale investments	-	61,657	61,657
Proceeds from sale of property, plant and equipment	188	468	532
Proceeds from sale of investment property	1,748	24,655	33,746
Repayment of lessee improvements	92	83	171
Cash was applied to:			
Acquisition of property, plant and equipment	(17,251)	(3,202)	(6,863)
Acquisition and improvements to investment property	(1,874)	(22,866)	(24,165)
Advances to subsidiaries	-	-	(163)
Interest capitalised	(25)	(82)	(207)
Net cash flows used in investing activities	**(17,122)**	**60,713**	**64,708**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings	5,530	-	40,933
Cash was applied to:			
Repayment of borrowings	(8,030)	(56,882)	(105,816)
Dividends paid	(750)	(1,900)	(8,400)
Net cash flows from financing activities	**(3,250)**	**(58,782)**	**(73,283)**
Increase (decrease) in cash held	(17,864)	11,590	20,175
Cash held at beginning of period	20,743	568	568
Cash held at end of period	**2,879**	**12,158**	**20,743**

The accompanying notes form part of these interim financial statements.

Notes to the Condensed Financial Statements

For the six months ended 31 December 2015 (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 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 2015.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2015, as described in those annual financial statements.

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

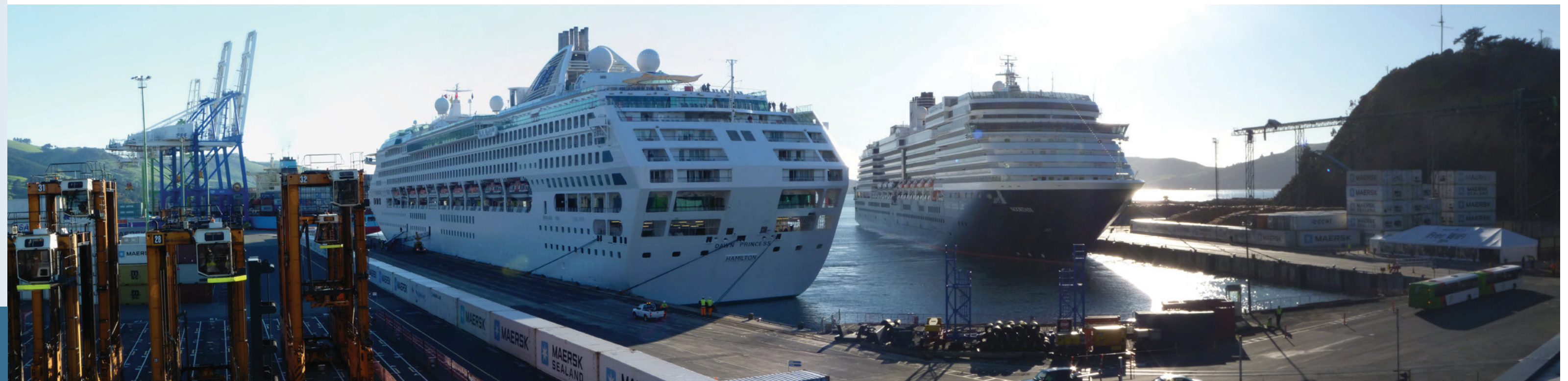
Restatement of the interim report for the six months ended 31 December 2014

As described in the annual financial statements for the year ended 30 June 2015, the Group realised a $24.713 million gain on the sale of the investment in Lyttelton Port Company. In the interim report for the six months ended 31 December 2014, the Group reported a gain on the sale of the investment of $11.015 million being the sale proceeds, net of disposal costs, less the carrying value of $50.642 million at 30 June 2014. The restatement of the statement of comprehensive income for the six months ended 31 December 2014 reflects the reversal of the prior year gains to 30 June 2014, recorded through other comprehensive income of $13.698 million. These prior year gains are incorporated in the gain on sale of available-for-sale investments disclosed in the condensed income statement.

This restatement has no impact of the previously reported total comprehensive income of $22.051 million for the period ended 31 December 2014.

	Previously reported $000	Restatement $000	Restated $000
Condensed income statement			
Six months ended 31 December 2014			
Gain on sale of available-for-sale investments	11,015	13,698	24,713

	Previously reported $000	Restatement $000	Restated $000
Condensed statement of comprehensive income			
Six months ended 31 December 2014			
Unrealised increase/(decrease) in the value of share investments	-	(13,698)	(13,698)



Notes to the Condensed Financial Statements (Continued)

For the six months ended 31 December 2015 (Unaudited)

3. Investment property valuation

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2015. 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.

5. Reconciliation of consolidated operating cash flows

	6 months Dec 2015 $000	6 months Dec 2014 $000	Year to Jun 2015 $000
The reconciliation between profit and the cash flows from operating activities is:			
Profit for the period	5,482	35,727	52,435
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	-	-	(10,678)
Depreciation and amortisation	4,163	4,074	8,739
Movement in the fair value of interest rate swaps	98	359	653
Movement in non-current employee entitlements	6	(96)	187
Movement in deferred tax	(128)	(1,552)	(158)
Plus/(less) items classified as investing activities:			
Loss/(gain) on sale of available-for-sale investments	-	(24,713)	(24,713)
Loss/(gain) on disposal of property, plant and equipment	(227)	(468)	(504)
Loss/(gain) on disposal of investment property	(475)	(827)	(1,074)
Share of surpluses retained by joint ventures	(71)	(149)	(324)
Movement in working capital items:			
Trade and other receivables	(2,838)	(2,644)	1,260
Trade and other payables	(2,125)	(725)	1,371
Current employee entitlements	(281)	90	348
Income tax	(1,077)	(544)	47
Inventories	(45)	25	(353)
Movement in working capital items classified as investing activities	26	1,102	1,514
Net cash flows from operating activities	**2,508**	**9,659**	**28,750**

Notes to the Condensed Financial Statements (Continued)

For the six months ended 31 December 2015 (Unaudited)

6. Commitments

At 31 December 2015 the Group had commitments/approvals for capital expenditure of $5.8 million (31 December 2014: $1.0 million, 30 June 2015: $13.55 million) which relates to purchases and upgrades of port assets.

7. Contingencies

There are no material contingent liabilities at 31 December 2015 other than those arising in the normal course of business.

8. Events after balance date

Dividends

On 17 February 2016 the Directors declared an interim dividend of $3.25 million.

Port Otago Limited – Directory

Directors

David Faulkner	Chairman
Paul Rea	Deputy Chairman
John Harvey	
Pat Heslin	
Ed Johnson	

Executive

Geoff Plunket	Chief Executive

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Website	www.portotago.co.nz

Bankers

ANZ National Bank 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 2015

Overview of Group Results

	6 months Dec 2015 $million	6 months Dec 2014 $million
Total revenue and other income	36.4	41.5
Operating profit	7.8	9.9
Gain on LPC shares and dividends	-	27.9
Profit for the period	5.5	35.7
Net cash flows from operating activities	2.5	9.7
Total assets	461	455
Shareholder equity	380	365
Equity ratio	83%	80%
Net asset backing per share	$19.01	$18.25
Trade:		
Container throughput (TEU)	74,000	77,400
Conventional cargo volume (000 tonnes)	636	727
Number of vessel arrivals	213	235

Chairman's Half Year Review

Financial results

The Port Otago Group's unaudited tax-paid result was $5.5 million for the six months ended 31 December 2015. This compares to $35.7 million for the comparative six month period last year which included a $24.7 million gain on the sale and a $3.2 million final dividend from the investment in the Lyttelton Port Company.

The underlying port operations and investment property operating surplus before tax of $7.1 million was 18% lower than the comparative period last year with lower cargo volumes and investment property rentals. Operating expenses were 3% higher offset by lower financing costs.

Health and safety

At the beginning of the six month period, a serious incident occurred at Port Chalmers when one of Port Otago's 4-over-3 straddle carriers toppled over, injuring the driver and resulting in a total write-off of the straddle carrier. The staff member has returned to work and has made a full recovery but the incident has highlighted the need to strive for continuous improvement in health and safety. A project to capture more leading indicators in line with our health and safety strategy is being implemented to provide the opportunity to monitor and assess the effectiveness of our health and safety systems and processes, as well as the overall health of the company's safety management systems and safety culture.

In addition to the incident described above, there were 2 further Lost Time Injuries (LTIs) during the period. At 31 December 2015, the Total Injury Frequency Rate (TIFR) on a rolling 12 month basis was 21 per million hours worked which is an improvement on the TIFR of 35 per million hours worked at 30 June 2015.

Next Generation development projects

Early in the New Year, deepening of the shipping channel to 13.5 metres chart datum to Port Chalmers was completed. This concludes the first stage of the channel deepening project with the 13.5 metre channel providing immediate benefit to exporters and shipping lines through the wider tidal window. Use of the offshore dredging disposal site was temporarily halted when it was identified that one of the baseline studies required under the resource consent had not been completed. The offshore disposal site will be available again in March 2016. Dredging has continued using the inshore disposal site. In addition, our dredge the *New Era* is undergoing its five-yearly survey with the second stage of the channel deepening project to 14 metres commencing after this.


Dredging the basin at Port Chalmers

The project to drive a row of sheetpiles along the container wharf to safeguard the wharf structure prior to deepening the berth was also completed. This project was required to be completed prior to the cruise season commencing and was successfully achieved.

Expansion of the Port Chalmers and Sawyers Bay warehousing capacity is also progressing well and will be completed shortly. The Port Chalmers expansion provides an additional 9,500 m² of premium on-wharf warehouse capacity with the Sawyers Bay warehouse providing an additional 3,800 m².

Interim dividend

An interim dividend of $3.25 million, which is the same as last year, will be paid on 19 February 2016 to our shareholder, the Otago Regional Council.

Financial position

The Group remains in a strong financial position with an equity ratio of 83% and borrowings of $52 million. Total assets of the Group are $461 million.

Port operations - trade

Export and import container volumes of 72,300 teu (twenty foot equivalent units) were 2% lower than the comparative period. Full container exports were up by 2% which is a good result with lower dairy exports. This gain was offset by lower import volumes. Empty container throughput was down as shipping lines manage empty container volumes to meet demand. Tranship volumes were also down resulting in total container throughput of 74,000 teu compared to 77,400 teu in the previous corresponding period.

Conventional cargo tonnes decreased 13% to 636,000 tonnes with log exports 16% lower at 353,000 tonnes. Cement and fish imports were also lower but partly offset by increased volumes of fertiliser and fuel.

The lower cargo volumes resulted in 17 less container and conventional cargo vessel arrivals for the six month period compared to last year. Cruise vessels were also down 5 to 25 visits for the six months with 70 cruise vessels forecast for the 2015/16 season. The 2016/17 season will see significant growth with 91 cruise vessels confirmed.

For the six months there were 213 vessel calls compared to 235 for the previous corresponding period.

Port operations - financial

Earnings before interest, tax, depreciation and amortisation (EBITDA) for port operations were $6.8 million, a decrease of 22% on $8.7 million for the comparative period. Revenue from port operations was $1.3 million lower with reduced container volumes which also affected warehouse storage activities and lower conventional cargo.


New Era dredging Otago Harbour


Port Chalmers' Back Beach warehouse expansion

Chalmers Properties Limited (CPL)

The CPL investment property portfolio achieved an operating profit before property disposals and tax of $4.7 million which was down 13% from the previous corresponding period. Investment property rentals were 1% lower following the disposal of several properties last year. CPL continues to search for investment properties to add to the portfolio although no opportunities have been successfully negotiated which meet the Group investment strategy in the current low market yield environment. CPL remains positioned for appropriate acquisitions as they are identified.


Sawyers Bay warehouses

Development of the second stage of the Hamilton industrial land subdivision commenced in January 2016. This second stage will provide 10 hectares of developed land in addition to the remaining 8 hectares from stage 1. This quantity of land provides various options for meeting industrial user's specific requirements.

Directors

In December 2015, Ross Black retired as a Director and Deputy Chairman following a 21 year involvement with the Company. On behalf of the Board I would like to thank Ross for his contribution to the Port Otago Group.

Pat Heslin was appointed to the Board in December 2015. Pat was a partner of Deloitte for 30 years and is now an independent consultant and director based in Dunedin.

Outlook

The global shipping environment remains competitive as lines match excess international vessel tonnage with cargo volumes. Exporters are benefiting from this excess capacity, and current low fuel prices, with favourable shipping rates.

The Board remains confident in our Next Generation development strategy, particularly deepening our channel to Port Chalmers in readiness for larger vessels on the New Zealand coastline.

On behalf of the Board of Directors

David Faulkner
Chairman
17 February 2016

Condensed Income Statement

For the six months ended 31 December 2015

	Unaudited 6 months Dec 2015 $000	Unaudited 6 months Dec 2014 $000 Restated	Audited Year to Jun 2015 $000
Revenue			
Port operations	28,686	30,002	62,852
Investment property rental	6,963	7,052	13,988
Dividend income	-	3,165	3,165
	35,649	40,219	80,005
Other income			
Gain on disposal of property, plant and investment property	703	1,295	1,579
Total revenue and other income	**36,352**	**41,514**	**81,584**
Operating expenses			
Staff costs	(14,242)	(13,382)	(27,259)
Fuel and electricity	(1,419)	(1,508)	(2,960)
Purchased materials and services	(7,089)	(7,140)	(14,635)
Restructuring costs	(173)	(135)	(135)
Depreciation and amortisation	(4,163)	(4,074)	(8,739)
Total operating expenses	**(27,086)**	**(26,239)**	**(53,728)**
Operating profit before finance costs, non-operating income and expenses and tax	**9,266**	**15,275**	**27,856**
Net financing costs	(1,509)	(2,320)	(4,225)
Share of profit from equity accounted investment	71	149	324
Operating profit before non-operating income and expenses and tax	**7,828**	**13,104**	**23,955**
Non-operating income and expenses			
Gain on sale of available-for-sale investments	-	24,713	24,713
Unrealised net change in value of investment property	-	-	10,678
Subvention payment	-	-	(95)
Unrealised net change in value of interest rate swaps	(98)	(359)	(653)
Total non-operating income and expenses	**(98)**	**24,354**	**34,643**
Profit before tax	**7,730**	**37,458**	**58,598**
Income tax expense	(2,248)	(1,731)	(6,163)
Profit for the period	**5,482**	**35,727**	**52,435**

Condensed Statement of Comprehensive Income

For the six months ended 31 December 2015

	Unaudited 6 months Dec 2015 $000	Unaudited 6 months Dec 2014 $000 Restated	Audited Year to Jun 2015 $000
Profit for the period	5,482	35,727	52,435
Available-for-sale financial assets			
Unrealised increase/(decrease) in the value of share investments	-	(13,697)	(13,697)
Cash flow hedges			
Unrealised movement in hedged interest rate swaps net of tax	225	21	23
Total comprehensive income for the period	**5,707**	**22,051**	**38,761**

The accompanying notes form part of these interim financial statements.

Condensed Statement of Changes in Equity

For the six months ended 31 December 2015

	Unaudited 6 months Dec 2015 $000	Unaudited 6 months Dec 2014 $000	Audited Year to Jun 2015 $000
Equity at the beginning of the period	375,199	344,838	344,838
Total comprehensive income for the period	5,707	22,051	38,761
Distribution to owners			
Dividends	(750)	(1,900)	(8,400)
Equity at the end of the period	**380,156**	**364,989**	**375,199**

Condensed Balance Sheet

As at 31 December 2015

	Unaudited 6 months Dec 2015 $000	Unaudited 6 months Dec 2014 $000	Audited Year to Jun 2015 $000
Current assets			
Cash and cash equivalents	2,879	12,158	20,743
Trade and other receivables	12,865	13,159	8,924
Inventories	1,137	714	1,092
Property held for sale	2,046	11,627	2,046
Investment property inventories	12,136	12,863	13,409
Derivative financial instruments	-	48	7
Finance leases	199	180	189
	31,262	50,749	46,410
Non-current assets			
Property, plant and equipment	170,914	159,145	158,643
Investment property	250,713	236,943	248,810
Equity accounted investments	1,429	1,308	1,358
Derivative financial instruments	-	187	-
Other financial assets	61	81	71
Finance leases	53	252	155
Intangible assets	6,113	6,264	6,379
	429,283	404,180	415,416
Total assets	**460,545**	**454,929**	**461,826**
Current liabilities			
Trade and other payables	5,423	5,452	7,548
Employee entitlements	3,645	3,667	3,926
Derivative financial instruments	664	651	713
Income tax	211	696	1,288
	9,943	10,466	13,475
Non-current liabilities			
Borrowings (secured)	52,200	62,700	54,700
Employee entitlements	1,317	1,028	1,311
Derivative financial instruments	355	526	526
Deferred tax liabilities	16,574	15,220	16,615
	70,446	79,474	73,152
Total liabilities	**80,389**	**89,940**	**86,627**
Equity			
Share capital	20,000	20,000	20,000
Reserves	360,156	344,989	355,199
Total equity	380,156	364,989	375,199
Total equity and liabilities	**460,545**	**454,929**	**461,826**

The accompanying notes form part of these interim financial statements.