



PORT OTAGO

Interim Report

For the six months ended 31 December 2022



Overview of group results

	Six months December 2022 \$000	Six months December 2021 \$000
Total revenue and other income	50,196	41,626
Contribution from operating activities	13,896	9,940
Profit for the year	9,235	6,504
Net cash flow surplus from operating activities	16,131	14,702
Total assets	874,294	768,504
Shareholder's equity	703,220	641,385
Equity ratio	80%	83%
Trade		
Dunedin bulk port cargo vessel arrivals	125	103
Port Chalmers container and bulk cargo vessel arrivals	79	68
Otago cruise vessel arrivals	31	0
Total ship calls	235	171
Container throughput (TEU - twenty-foot equivalent units)	77,600	73,900
Bulk cargo volume (000's tonnes)	919	794

Underlying profit

We believe an underlying profit measurement can assist in understanding business performance - particularly for an organisation such as Port Otago, where revaluation changes can distort financial results and make it difficult to compare profits between years.

Port Otago refers to underlying profits, alongside reported results. That is, when we report the results, we exclude fair value changes of investment property adjusted for changes that relate to development projects completed during the period.

	Unaudited 6 months December 2022 \$000	Unaudited 6 months December 2021 \$000	Audited Year to June 2022 \$000
Profit for the year	9,235	6,504	70,476
Less			
Unrealised change in the value of investment property	-	-	(59,765)
Income tax on revaluations	-	-	3,588
Profit for the period before revaluations	9,235	6,504	14,299
Plus			
Development margin on completed property projects	-	-	4,043
Income tax on development margin	-	-	(758)
Development margin net of tax	-	-	3,285
Underlying profit	9,235	6,504	17,584

Half year review from the Chair and Chief Executive

Our team

After 11 years' service to Port Otago, Paul Rea retired as Chair at the end of December. We acknowledge the contribution Paul made over his tenure - to both Port Otago and the Otago region. Director Tim Gibson was appointed Chair, with Pat Heslin continuing as Deputy Chair. Kate Faulks was welcomed to the Board as an Intern in August.

We remain focused on improving our safety culture to keep our people safe. We continuously review and challenge how we manage our critical risks, moving wherever possible to invest in engineering controls that fully eliminate the risk. The completion of our Safety Leadership Programme has given our leaders the confidence and skills to make a difference across the business, every working day.

To improve the effectiveness and delivery of training, we invested in a modern Learning Management System (LMS), which went live at Christmas. Called Port Otago Learning, this system provides clarity for our kaimahi in relation to the scope of their role and how work should be undertaken safely, as well as a pathway to gain new skills.

Our financial value

The tax-paid profit for the six months ended 31 December 2022 was \$9.2 million, compared to \$6.5 million for the same period last year - an increase of 41%. Revenue from marine and cargo services was up 29%, with the return of cruise vessels and increased bulk and containerised cargo volumes. The return of cruise to the business is welcome and 31 vessels called during the six-month period.

Container trade continues to be disrupted by constraints elsewhere in the network. However,

we expect a gradual return to a more normal pattern, as vessel reliability improves. Pleasingly, container TEU throughput increased by 5% over the period, with lower import volumes offset by higher tranship volumes through Port Chalmers. Log export volumes of 543,000 tonnes for the six months were up 23%, compared to last year's comparative period volume of 441,000 tonnes.

Property rentals increased 10% to \$16.7 million, delivering on the strategy of investing in the Auckland and Hamilton property markets. Nine hectares of land at Te Rapa remain to be developed into further warehousing and will be held as investment property. We currently have four design/build/lease projects underway in Hamilton and all are tracking well. Three of these projects will be completed by 30 June 2023 and the subsequent rent will contribute to the 23/24 financial year. Demand for new design/build/lease warehouses in Hamilton is still strong and includes Steel & Tube, which signed up for its third build with Chalmers Properties.

The community project to build a new amenity beach at Te Rauone reached a milestone at Christmas, when work to pump 28,000m³ of recycled sand from our dredging operation up onto the beach was completed. The result has exceeded our expectations and the beach is being well used by the wider Otago community through summer. We will monitor the beach over the next 12 months to observe how the sand settles and the impact of winter storms, and will follow up with additional sand, if required. Much credit must go to the Te Rauone Beach Coast Care Committee. Without its perseverance and hard work, our community would not be enjoying this new amenity.

Work to remediate and strengthen the Ravensbourne Wharf nears completion. This will enable bulk fertiliser vessels to again discharge directly into the Ravensdown plant. We expect

the upgrade to be finished in March, significantly reducing truck movements from Dunedin and Port Chalmers to Ravensbourne - a good outcome for our community and the environment.

The construction of the company's new office and museum extension remains on track, with our team looking forward to moving into the building mid year. The refreshed Port Chalmers Maritime Museum should re-open in November and we predict this will be a popular attraction for locals and cruise passengers alike.

The Otago Regional Council's new home, Whare Rūnaka, has moved from planning and design to the construction phase. Over the next 18 months, we will be focused on delivering a quality outcome for our shareholder.

Total borrowings increased by \$18 million during the six months, to \$127 million at 31 December 2022, due to increased capital spend in Hamilton. This was partially offset by increased cash flow from operations, due to improved business activity. The balance sheet remains strong, with an equity ratio of 80%.

Outlook

We expect about 100 cruise ships to visit Port Chalmers and Dunedin this season, contributing more than \$60 million to our local economy - spending which has been missed during the past two years.

In February, Port Chalmers welcomes ZIM Integrated Shipping Services, with an initial fortnightly service that links to Australia and beyond. This provides increased choice and capacity for our region's exporters at a timely point in our export season.

We expect container and bulk volumes to be similar to last year and, with the return of cruise and increasing property rentals, anticipate our full-year earnings will be higher than our 2021/22 result.

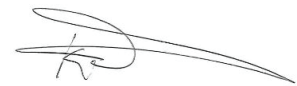
We look forward to the HEB team (currently working at Ravensbourne) moving down to Port Chalmers to begin constructing our new Cross Wharf in the basin. The new wharf will replace a 100-year-old timber structure and is the last project in modernising our Port Chalmers wharf infrastructure. We expect the Cross Wharf to be completed in November 2023.

An interim dividend of \$6.5 million, up from \$6.0 million last year, will be paid in February 2023.

Port Otago's balance sheet remains strong and we are well positioned to manage our way through economic challenges and take advantage of opportunities that arise.



Tim Gibson
Chair



Kevin Winders
Chief Executive



Condensed income statement

For the six months ended 31 December 2022

	Unaudited 6 months December 2022 \$000	Unaudited 6 months December 2021 \$000	Audited Year to June 2022 \$000
Revenue			
Marine and cargo services	28,888	22,463	48,228
Warehousing and logistics services	3,821	3,995	8,459
Property rentals	16,726	15,152	31,374
	49,435	41,610	88,061
Other income			
Gain on sale of investment property and property, plant and equipment	761	16	100
Total revenue and other income	50,196	41,626	88,161
Operating expenses			
Staff costs	(17,193)	(15,636)	(31,153)
Purchased materials and services	(13,112)	(10,022)	(22,433)
Depreciation and amortisation	(5,995)	(6,028)	(12,288)
Total operating expenses	(36,300)	(31,686)	(65,874)
Contribution from operating activities	13,896	9,940	22,287
Financing costs	(1,628)	(1,487)	(2,922)
Subvention payment	-	-	(100)
Fair value change in ineffective interest rate swaps	203	556	1,203
Unrealised change in the fair value of investment property	-	-	59,765
Profit before income tax	12,471	9,009	80,233
Income tax expense	(3,236)	(2,505)	(9,757)
Profit for the period	9,235	6,504	70,476

The accompanying notes form part of these interim financial statements.

Condensed statement of comprehensive income

For the six months ended 31 December 2022

	Unaudited 6 months December 2022	Unaudited 6 months December 2021	Audited Year to June 2022
Profit for the period	\$000 9,235	\$000 6,504	\$000 70,476
Other comprehensive income			
Fair value change in effective interest rate swaps (net of tax)	507	1,264	2,385
Total comprehensive income for the period	9,742	7,768	72,861

Condensed statement of changes in equity

For the six months ended 31 December 2022

	Unaudited 6 months December 2022	Unaudited 6 months December 2021	Audited Year to June 2022
Equity at the beginning of the period	\$000 694,478	\$000 634,617	\$000 634,617
Total comprehensive income for the period	9,742	7,768	72,861
Dividends paid to owners	(1,000)	(1,000)	(13,000)
Equity at the end of the period	703,220	641,385	694,478

The accompanying notes form part of these interim financial statements.

Condensed statement of financial position

As at 31 December 2022

	Unaudited December 2022 \$000	Unaudited December 2021 \$000	Audited June 2022 \$000
Current assets			
Cash and cash equivalents	127	581	80
Trade and other receivables	16,331	11,511	12,872
Non-current assets held for sale	-	-	2,060
Maintenance inventories	1,484	1,474	1,405
Income tax receivable	-	1,037	-
Derivative financial instruments	1,940	307	1,128
	19,882	14,910	17,545
Non-current assets			
Property inventories	14,950	16,755	16,428
Investment property	591,304	500,341	572,185
Property, plant and equipment	239,171	229,518	227,331
Intangible assets	3,905	4,813	4,248
Derivative financial instruments	3,247	2,167	3,153
Other financial assets	1,835	-	1,210
	854,412	753,594	824,555
Total assets	874,294	768,504	842,100
Current liabilities			
Trade and other payables	12,659	7,619	8,742
Borrowings	16,735	17,920	8,250
Employee entitlements	5,329	4,225	4,737
Derivative financial instruments	-	263	-
Lease liabilities	268	278	258
Income tax payable	1,285	-	848
	36,276	30,305	22,835
Non-current liabilities			
Borrowings	109,960	75,850	99,960
Employee entitlements	853	997	903
Derivative financial instruments	-	133	-
Lease liabilities	2,431	2,689	2,567
Deferred tax liabilities	21,554	17,145	21,357
	134,798	96,814	124,787
Total liabilities	171,074	127,119	147,622
Equity			
Share capital	20,000	20,000	20,000
Reserves	388,672	329,289	390,174
Retained earnings	294,548	292,096	284,304
Total equity	703,220	641,385	694,478
Total equity and liabilities	874,294	768,504	842,100

The accompanying notes form part of these interim financial statements.

Condensed cash flow statement

For the six months ended 31 December 2022

	Unaudited 6 months December 2022 \$000	Unaudited 6 months December 2021 \$000	Audited Year to June 2022 \$000
Cash flows from operating activities			
Receipts from customers	45,182	41,914	84,295
Payments to suppliers and employees	(24,640)	(23,211)	(46,961)
Purchase of property inventories	(168)	(287)	(465)
Interest paid	(1,030)	(1,446)	(2,911)
Subvention payments	-	-	(100)
Income tax payments	(2,798)	(2,287)	(3,878)
Net GST received (paid)	(415)	19	(210)
Net cash flows from operating activities	16,131	14,702	29,770
Cash flows from investing activities			
Proceeds from sale of investment property	2,607	-	214
Proceeds from sale of property, plant and equipment	-	16	314
Purchase of investment property	(17,687)	(16,024)	(29,447)
Purchase of property, plant and equipment	(17,442)	(11,856)	(15,480)
Interest capitalised	(295)	(37)	(159)
Net cash flows used in investing activities	(32,817)	(27,901)	(44,558)
Cash flows from financing activities			
Proceeds from borrowings	94,450	47,555	208,215
Repayment of borrowings	(76,590)	(32,875)	(180,305)
Dividends paid	(1,000)	(1,000)	(13,000)
Repayment of lease liabilities	(127)	(141)	(283)
Net cash flows from financing activities	16,733	13,539	14,627
Increase (decrease) in cash held	47	340	(161)
Cash held at beginning of period	80	241	241
Cash held at end of period	127	581	80

The accompanying notes form part of these interim financial statements.

Reconciliation of profit to net cash flows from operating activities

	Unaudited 6 months December 2022 \$000	Unaudited 6 months December 2021 \$000	Audited Year to June 2022 \$000
Profit for the period	9,235	6,504	70,476
Plus/(less) non-cash items			
Unrealised change in the value of investment property	-	-	(59,765)
Depreciation and amortisation	5,995	6,028	12,288
Movement in the fair value of ineffective interest rate swaps	(203)	(556)	(1,203)
Movement in non-current employee entitlements	(50)	41	(53)
Movement in deferred tax	1	249	4,026
Plus/(less) items classified as investing activities			
Gain on sale of investment property and property, plant and equipment	(761)	(16)	(100)
Movement in working capital items			
Trade and other receivables	(3,459)	2,100	741
Trade and other payables	3,917	652	1,775
Current employee entitlements	592	53	565
Income tax payable	437	(33)	1,852
Maintenance inventories	(79)	2	71
Property inventories	(168)	(287)	(465)
Movement in other working capital items classified as investing activities	674	(35)	(438)
Net cash flows from operating activities	16,131	14,702	29,770

Notes to the condensed financial statements

For the six months ended 31 December 2022 (unaudited)

1. General information

The unaudited interim condensed financial statements presented are those of Port Otago Limited ("the Company"), and its subsidiaries, ("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 2022.

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

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2022. 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. Property inventories are transferred to investment property at carrying value, with fair value determined at balance date, where a change in use is evidenced by the inception of an operating lease to another party.

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. Commitments

At 31 December 2022 the Group had commitments/approvals for capital expenditure of \$38.5 million (31 December 2021: \$10.9 million, 30 June 2022: \$46.8 million) which relates to purchases and refurbishments of port assets and investment property.

7. Contingencies

There are no contingent liabilities at 31 December 2022 other than those arising in the normal course of business.

8. Events after balance date

Dividends

On 21 February 2023 the directors declared an interim dividend of \$6.5 million.



Directory

Directors

Tim Gibson	Chair
Pat Heslin	Deputy Chair
Tom Campbell	
Bob Fulton	
Becky Lloyd	
Chris Hopkins	
Paul Rea	(Retired 31 December 2022)

Intern

Kate Faulks

Leadership Team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Grant Bicknell	GM Marine & Infrastructure
Leigh Carter	Head of People
David Chafer	GM Property
Jonny Cook	Operations Manager
Deanna Matsopoulos	Supply Chain Manager
Rachel Pullar	Head of Digital
Ross Buchan	Head of Safety
Craig Usher	Commercial Manager
Jodi Taylor	Executive Assistant

Address

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Ernst & Young on behalf of the
 Auditor-General

