PORT OTAGO

Interim Report

For the six months ended 31 December 2023

Overview of group results

	Six months December 2023 $000	Six months December 2022 $000
Total revenue	60,071	49,435
Contribution from operating activities	19,015	13,135
Profit for the period (after tax)	12,963	9,235
Net cash flow surplus from operating activities	7,812	16,299
Total assets	909,573	874,294
Shareholder's equity	714,266	703,220
Equity ratio	79%	80%
Trade		
Dunedin bulk port cargo vessel arrivals	112	125
Port Chalmers container and bulk cargo vessel arrivals	125	79
Otago cruise vessel arrivals	33	31
Total ship calls	270	235
Container throughput (TEU - twenty-foot equivalent units)	117,200	77,600
Bulk cargo volume (000's tonnes)	861	919

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 2023 $000	Unaudited 6 months December 2022 $000	Audited Year to June 2023 $000
Profit for the year	12,963	9,235	23,277
Less			
Unrealised change in the fair value of investment property	-	-	458
Income tax on revaluations	-	-	(2,229)
Profit for the period before revaluations	12,963	9,235	21,506
Plus			
Development margin on completed property projects	-	-	12,595
Income tax on development margin	-	-	(2,056)
Development margin net of tax	-	-	10,539
Underlying profit	**12,963**	**9,235**	**32,045**

Half year review from the Chair and Chief Executive

Our kaimahi

In January 2024, the Collective Employment Agreement (CEA) was agreed with the two operational unions, Maritime Union of New Zealand (MUNZ) and Rail and Maritime Transport Union (RMTU). The agreement provides a change in shift patterns for our team – from three eight-hour rolling shifts, to two 10-hour fixed shifts. The new roster improves work-life balance and reduces fatigue risk for our kaimahi, while increasing productivity for our shipping partners and supply chain efficiencies for our regional exporters. This roster change is a significant step towards becoming a more agile and responsive business.

Tom Campbell retired as a Director at the end of December, following six years' service. We acknowledge the governance skills, experience and wisdom that he brought to our Board. Nelson-based Rick Herd (outgoing Naylor Love Chief Executive) has subsequently been appointed as a Director.

Our financial value

Profit for the six months ended 31 December 2023 was $13.0 million, compared to $9.2 million for the same period last year. The contribution from operating activities of $19.0 million was 45% more than the comparative period, with revenue up $10.6 million, but operating costs also up, by $4.8 million. Revenue from marine and cargo services was up $8.2 million, due to an increase in total ship calls and improved container throughput. Container volumes increased 51% to 117,200 TEU, following the addition of the Maersk Polaris service to transship container cargo from other regions through Port Chalmers and onto other Maersk services for export. Total transship container volumes increased by 39,000 TEU, while full export and import container volumes were consistent with the comparative period last year. In December, we welcomed the new ANL weekly trans-Tasman service, which will be a key link to global destinations for lower South Island exporters.

The cruise season had a strong start, with 33 cruise ships arrived during the six-month period compared to 31 over the same period last year.

Total bulk cargo volumes of 861,000 tonnes were down 6% for the six months, with log volumes 7% lower at 504,000 tonnes.

Property rentals increased 13% to $19.0 million, with three Te Rapa Gateway design/build/lease warehouses completed during the last financial year and ongoing rent reviews within the Group property portfolio. Construction of a further three design/build/lease warehouses at Te Rapa Gateway is underway, with two forecast for completion by balance date and the third during the next financial year.

Staff costs of $19.8 million were up $2.6 million compared to the same period last year, driven by the increased port activity plus higher staff-related costs, including ACC, health insurance premiums and employer superannuation contributions.

Group equity was $714 million at 31 December 2023, with an equity ratio of 79% and borrowings of $151 million – an increase of $10 million over the six months. Capital expenditure spend during the period totalled $26 million. This included construction of design/build/lease warehouses at Te Rapa Gateway, construction costs for the Whare Rūnaka project (the Otago Regional Council's new home) and the Port Chalmers Maritime Museum refurbishment/Port Otago office annex build. We also completed the rebuild of the Cross Wharf at Port Chalmers and took delivery of our new pilot boat, Te Rauone.

Outlook

The outlook for the remaining six months is positive, with the business expected to track above last year's underlying earnings. Our cruise season has been impacted by unsettled weather, with eight cruise ships omitting to date. However, we still expect 118 cruise ship visits for the season – 17% up on the 101 total for 2022/23. This translates to an extra 200,000 passengers visiting our region.

Bulk volumes are holding up well, although log and oil volumes are tracking slightly below last year. Despite challenging market conditions, the outlook is for similar performance in the second half of the year.

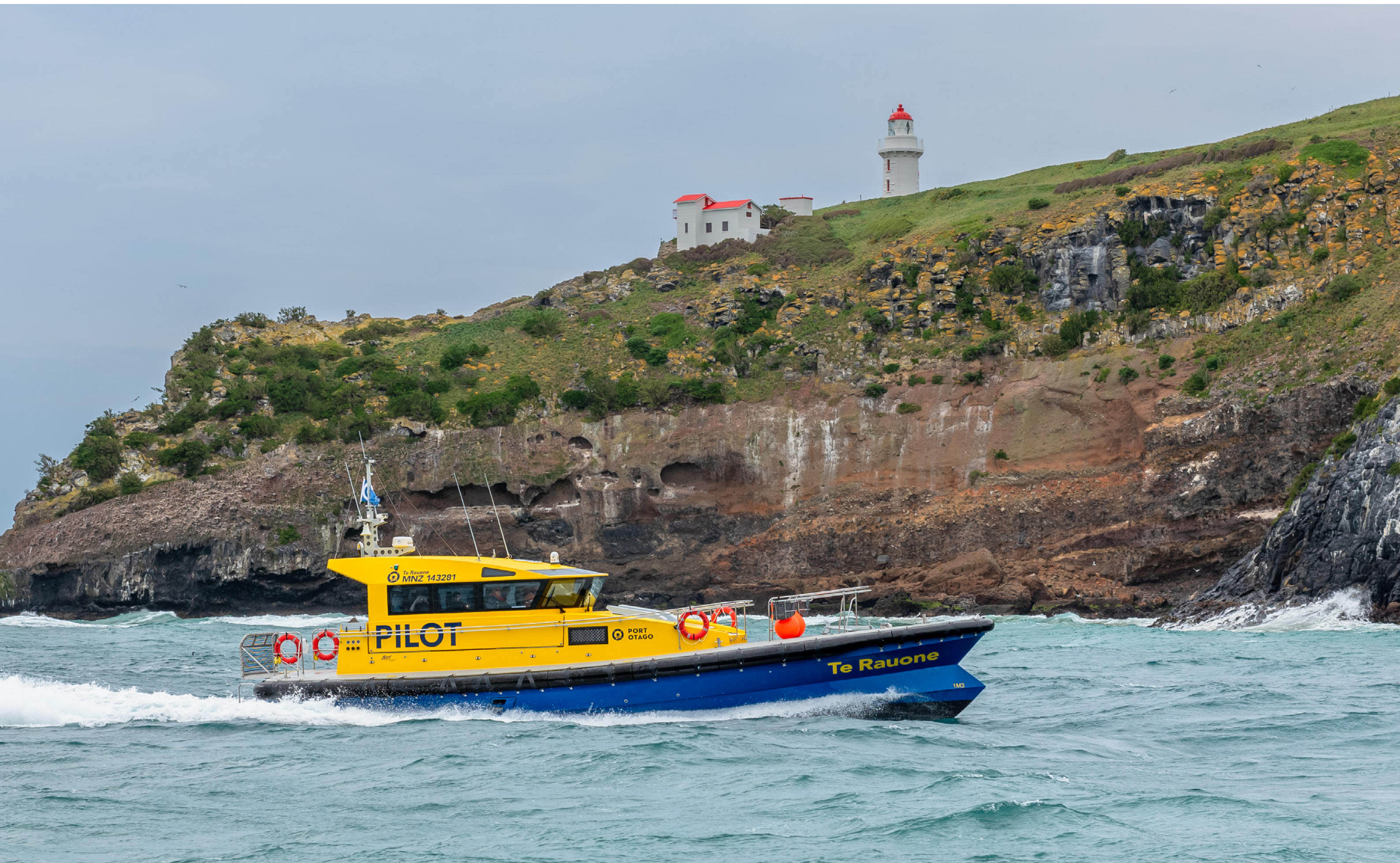
The container business is expected to perform above last year's levels, as a result of the additional transship volume, the new ANL service, and our new labour model. Collectively, these factors will deliver better outcomes for customers, shipping partners and our kaimahi. We are currently recruiting for Cargo Handlers to lift our capacity and service levels during the upcoming export peak period. We acknowledge our existing kaimahi, who are stepping up and, as part of the new labour model, sharing in the economic benefits new business brings to our region.

Rising interest rates and inflation pressures are flowing through into the cost of construction and this has tempered demand for new design/build/lease projects in Te Rapa Gateway, Hamilton. However, market rentals are lifting across our portfolio, offsetting the higher cost base and helping underpin the current fair value of our industrial holdings. We are watching economic headwinds impact business activity and most NZX-listed property companies have reported a decrease in the fair value of their property portfolios. If conditions worsen over the next six months, there is potential downside risk for year-end fair value assessments.

An interim dividend of $7.5 million, up from $6.5 million last year, was paid in February 2024.

Tim Gibson
Chair

Kevin Winders
Chief Executive



Condensed income statement

For the six months ended 31 December 2023

	Unaudited 6 months December 2023 $000	Unaudited 6 months December 2022 $000	Audited Year to June 2023 $000
Revenue			
Marine and cargo services	37,103	28,888	68,821
Warehousing and logistics services	4,004	3,821	8,589
Property rentals	18,964	16,726	33,862
Total revenue	60,071	49,435	111,272
Operating expenses			
Staff costs	(19,783)	(17,193)	(37,529)
Purchased materials and services	(14,849)	(13,112)	(28,283)
Depreciation and amortisation	(6,424)	(5,995)	(12,479)
Total operating expenses	**(41,056)**	**(36,300)**	**(78,291)**
Contribution from operating activities	**19,015**	**13,135**	**32,981**
Gain on sale of investment property and derecognition of property, plant and equipment	1,843	761	997
Financing costs	(3,050)	(1,628)	(3,817)
Subvention payment	-	-	(100)
Fair value change in ineffective interest rate swaps	(1,005)	203	(46)
Unrealised change in the fair value of investment property	-	-	(458)
Profit before income tax	**16,803**	**12,471**	**29,557**
Income tax expense	(3,840)	(3,236)	(6,280)
Profit for the period	**12,963**	**9,235**	**23,277**

The accompanying notes form part of these interim financial statements.

Condensed statement of comprehensive income

For the six months ended 31 December 2023

	Unaudited 6 months December 2023 $000	Unaudited 6 months December 2022 $000	Audited Year to June 2023 $000
Profit for the period	12,963	9,235	23,277
Other comprehensive income			
Fair value change in effective interest rate swaps (net of tax)	(1,617)	507	165
Total comprehensive income for the period	**11,346**	**9,742**	**23,442**

Condensed statement of changes in equity

For the six months ended 31 December 2023

	Unaudited 6 months December 2023 $000	Unaudited 6 months December 2022 $000	Audited Year to June 2023 $000
Equity at the beginning of the period	703,920	694,478	694,478
Total comprehensive income for the period	11,346	9,742	23,442
Dividends paid to owners	(1,000)	(1,000)	(14,000)
Equity at the end of the period	**714,266**	**703,220**	**703,920**

The accompanying notes form part of these interim financial statements.

Condensed statement of financial position

As at 31 December 2023

	Unaudited December 2023 $000	Unaudited December 2022 $000	Audited June 2023 $000
Current assets			
Cash and cash equivalents	2	127	55
Trade and other receivables	24,548	16,331	19,576
Maintenance inventories	1,837	1,484	1,571
Derivative financial instruments	1,640	1,940	2,149
	28,027	19,882	23,351
Non-current assets			
Property inventories	13,651	14,950	15,507
Investment property	609,957	591,304	604,914
Property, plant and equipment	250,270	239,171	240,832
Intangible assets	3,962	3,905	4,205
Derivative financial instruments	1,487	3,247	2,430
Other financial assets	2,219	1,835	2,088
	881,546	854,412	869,976
Total assets	**909,573**	**874,294**	**893,327**
Current liabilities			
Trade and other payables	12,936	12,659	14,946
Borrowings	8,085	16,735	5,540
Employee entitlements	5,630	5,329	6,079
Derivative financial instruments	23	-	23
Lease liabilities	287	268	277
Income tax payable	2,084	1,285	4,715
	29,045	36,276	31,580
Non-current liabilities			
Borrowings	142,909	109,960	135,088
Employee entitlements	881	853	861
Derivative financial instruments	1,914	-	115
Lease liabilities	2,143	2,431	2,290
Deferred tax liabilities	18,415	21,554	19,473
	166,262	134,798	157,827
Total liabilities	**195,307**	**171,074**	**189,407**
Equity			
Share capital	20,000	20,000	20,000
Reserves	378,822	388,672	387,872
Retained earnings	315,444	294,548	296,048
Total equity	**714,266**	**703,220**	**703,920**
Total equity and liabilities	**909,573**	**874,294**	**893,327**

The accompanying notes form part of these interim financial statements.

Condensed cash flow statement
For the six months ended 31 December 2023

	Unaudited 6 months December 2023 $000	Unaudited 6 months December 2022 $000	Audited Year to June 2023 $000
Cash flows from operating activities			
Receipts from customers	54,255	45,182	101,427
Payments to suppliers and employees	(38,333)	(24,640)	(54,663)
Interest paid	(3,136)	(1,030)	(3,612)
Subvention payments	-	-	(100)
Income tax payments	(6,900)	(2,798)	(4,361)
Net GST received (paid)	1,926	(415)	(637)
Net cash flows from operating activities	**7,812**	**16,299**	**38,054**
Cash flows from investing activities			
Proceeds from sale of investment property	9,444	2,607	2,596
Proceeds from sale of property, plant and equipment	3	-	5,713
Purchase of investment property and property inventories	(10,401)	(17,855)	(31,910)
Purchase of property, plant and equipment	(15,514)	(17,442)	(30,718)
Interest capitalised	(496)	(295)	(1,041)
Net cash flows used in investing activities	**(16,964)**	**(32,985)**	**(55,360)**
Cash flows from financing activities			
Proceeds from borrowings	10,545	34,375	74,250
Repayment of borrowings	(310)	(16,515)	(42,710)
Dividends paid	(1,000)	(1,000)	(14,000)
Repayment of lease liabilities	(136)	(127)	(259)
Net cash flows from financing activities	**9,099**	**16,733**	**17,281**
Increase (decrease) in cash held	(53)	47	(25)
Cash held at beginning of period	55	80	80
Cash held at end of period	**2**	**127**	**55**

The accompanying notes form part of these interim financial statements.

Reconciliation of profit to net cash flows from operating activities

	Unaudited 6 months December 2023 $000	Unaudited 6 months December 2022 $000	Audited Year to June 2023 $000
Profit for the period	12,963	9,235	23,277
Plus/(less) non-cash items			
Unrealised change in the fair value of investment property	-	-	458
Depreciation and amortisation	6,424	5,995	12,479
Unrealised foreign exchange losses	-	-	23
Fair value change in ineffective interest rate swaps	1,005	(203)	46
Movement in non-current employee entitlements	20	(50)	(42)
Movement in deferred tax	(429)	1	(1,948)
Plus/(less) items classified as investing activities			
Gain on sale of investment property and derecognition of property, plant and equipment	(1,843)	(761)	(997)
Movement in working capital items			
Trade and other receivables	(4,972)	(3,459)	(6,704)
Trade and other payables	(2,010)	3,917	6,205
Current employee entitlements	(449)	592	1,342
Income tax payable	(2,631)	437	3,867
Maintenance inventories	(266)	(79)	(166)
Movement in other working capital items classified as investing activities	-	674	214
Net cash flows from operating activities	**7,812**	**16,299**	**38,054**

Notes to the condensed financial statements

For the six months ended 31 December 2023 (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 2023.

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 2023. The Board has received and considered advice from management that there has been no overall 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 2023 the Group had commitments for capital expenditure of $7.6 million (31 December 2022: $38.5 million, 30 June 2023: $14.1 million) which relates to purchases and refurbishments of port assets and investment property. In addition, the Group has approved $36.5 million of capital expenditure.

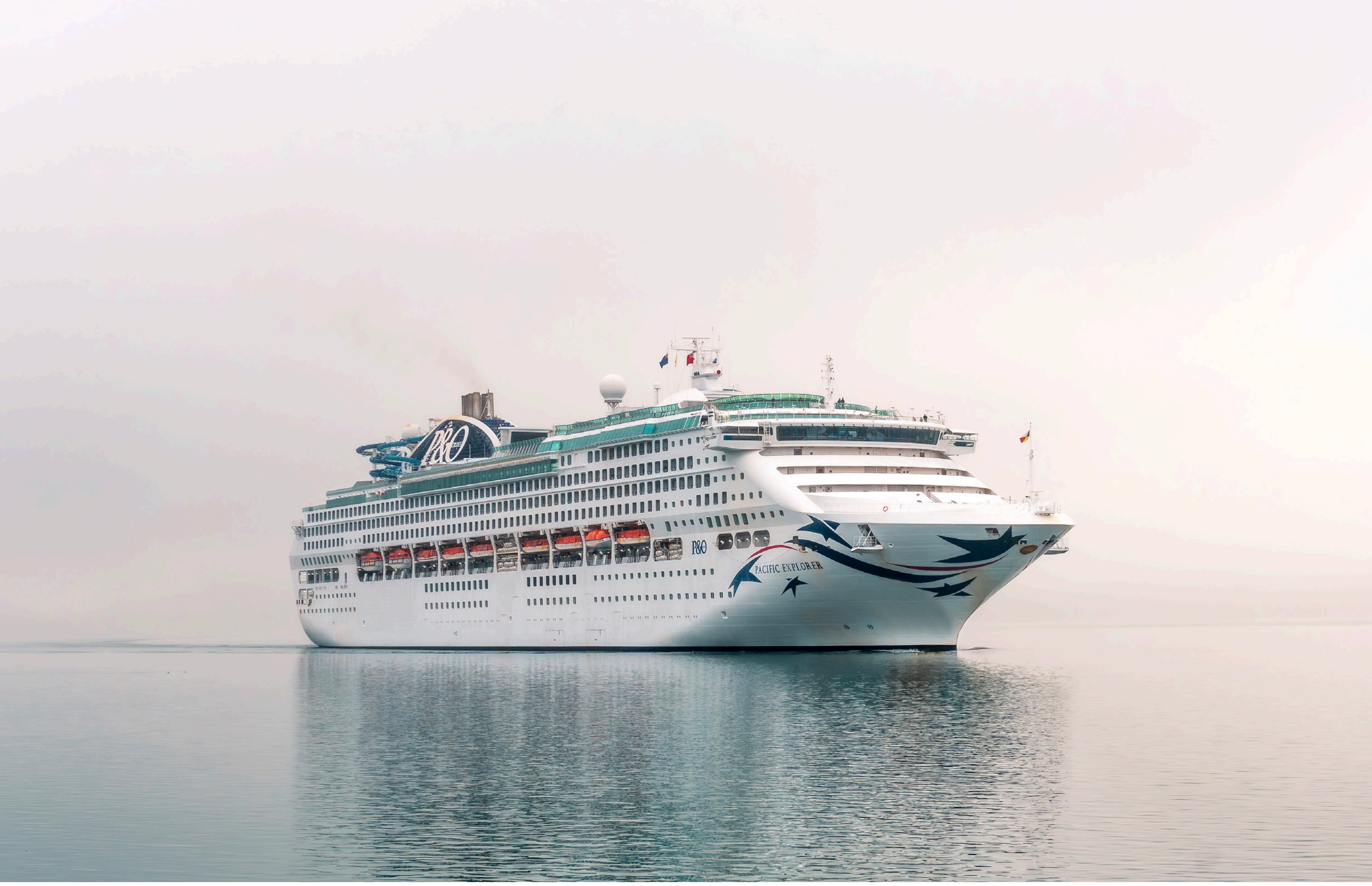
7. Contingencies

There are no contingent liabilities at 31 December 2023 other than those arising in the normal course of business.

8. Events after balance date

Dividends

On 20 February 2024, the directors declared an interim dividend of $7.5 million.



Directory

Directors

Tim Gibson	Chair
Pat Heslin	Deputy Chair
Tom Campbell	(Retired 31 December 2023)
Bob Fulton	
Becky Lloyd	
Chris Hopkins	
Anne McLeod	
Rick Herd	(Appointed 1 January 2024)

Intern

Kate Faulks

Leadership Team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Grant Bicknell	GM Marine & Infrastucture
Leigh Carter	Head of People
David Chafer	GM Property
Deanna Matsopoulos	Operations Manager
Ross Buchan	Head of Safety
Craig Usher	Commercial Manager
Ollie Barton-Jones	Head of IT
Kevin Kearney	Strategic Projects 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