INTERIM REPORT

For the six months ended 31 December 2023

PORT NELSON

E aronui ana ki ō tātou tāngata kei te manawa pātuki o Whakatū, me mihi ka tika hoki.
Mai i ngā pae maunga ki Tangaroa takapou whāriki, Papatūānuku e hora ake nei.
Ko tā tātou i Te Tauihu, he tautoko i ngā wawata, he hāpai anō hoki i te oranga o te hapori.
E kōkiri whakamua ana te kounga hei painga mā ō tātou kiritaki.
E aronui ana ki te taiao, kia tū, kia oho, kia mataara ki te anamata.
E kaha whakaputa mai ana i ngā hua mā te hunga whaipānga.
E mahi ngātahi ana, e aro ngātahi ana ‘ki te hāpai i te puawaitanga ā-rohe’.

We acknowledge our people, who are at the heart of Port Nelson.
We honour the mountains, the sea and the land under, in, and upon which we operate.
We recognise our role within Te Tauihu and support the aspirations and wellbeing of our community.
Driving excellence across the supply chain for our customers.
Respecting the environment in which we operate and pushing towards a sustainable future.
Delivering strong and sustained returns for our shareholders.
Working and striving together ‘to facilitate regional prosperity’.

Contents

Purpose and Goals

Port Nelson's purpose is 'to facilitate regional prosperity/kia āhei ki te kōkiri whakamua ki te taumata ā-rohe'

A key word in our purpose is 'prosperity'. While traditionally seen from an economic perspective, the Port recognises that sustainable prosperity comes from addressing the needs of all its stakeholders.

The port has five stakeholders: Customers, Environment, People, Community, and Shareholders.

The Port also defines what success looks like from each stakeholder's perspective and has established goals that reflect that understanding. The simple days of 'or' – profit or environment; customer or community; profit or safety are gone. Businesses today must embrace the 'and'.

Purpose

Facilitating Regional Prosperity

Kia āhei ki te kōkiri whakamua ki te taumata ā-rohe

Stakeholder Goals

Our Customers
Ō tātou kiritaki
Provide leading port and logistics operations and drive supply chain innovation

Our Environment
Tō tātou taiao
Reduce our environmental impacts and push towards a sustainable future

Our People
Ō tātou whānau
Build and keep safe an engaged high-performing team

Our Community
Tō tātou hapori
Support the improvement of wellbeing in our community

Our Shareholders
Ō tātou kaiwhaipānga
Deliver strong and sustained returns to our shareholders

Values

Our values are traits that we continually exhibit on a day-to-day basis to drive us to achieve our purpose:

Accountability

Safety

Passion

Integrity/ Honesty

Respect

Excellence

Performance Commentary

It has been a challenging first six months of the 2024 financial year. The economic slowdown has resulted in reduced containerised commodities moving through the port, negatively impacting profitability.

In spite of these cargo and financial challenges, the Port continues to grow its customer engagement, people capability, environmental focus, and community involvement.

The remainder of the 2024FY should see some trading improvement with a strong kiwifruit and apple season forecast. However, a general softness will continue across most other commodities. The year-end profit result will remain below budget.

Our Customers

During the first half of 2024FY, the total cargo volume was 1.5 million revenue tonnes, 2% less than the budget. The containerised portion of this cargo was just under 50,000 TEU, which was 7% lower than the budget. Bulk cargo consisting mainly of logs was marginally lower than expected.

Key containerised commodities creating the negative variance were wine and processed timber, including MDF. A longer tail to the apple export season mitigated the variance. In bulk cargo commodities, logs recovered from a slow start to close down 6% on budget. Fuel, mineral sand and fertiliser volumes were above budget.

Looking forward, uncertainty remains regarding log exports, with questions still being asked as to whether the current downturn is a structural adjustment in China or a more temporary one. The wine trade also has uncertainties, with the US and UK markets still slow to recover from post-Covid supply issues.

Our Environment

The Port's scope 1 and 2 emissions are forecasted to be down over 18% by the end of the year, from our 2019FY baseline, as per the Port's target. Scope 3 emissions (originated by PNL – waste, travel, accommodation) are forecasted to be down 70% on 2019FY emissions. This is a slight increase on recent emissions with more customer connection and training activities taking place.

To further reduce emissions, a commitment was made to replace an ageing diesel crane with an electric hybrid and convert our newest diesel crane to an electric one. The order for these cranes has been placed, with arrival scheduled for October 2024. A hydrogen injection trial on one of our diesel container movers will commence in the second half of the year.

The Port conducted a waste audit, and waste reduction actions have commenced. In addition, internal education programmes continue to support the Port team in championing carbon reduction.

From a non-carbon environmental impact perspective, noise management remains a focus. The Port experienced a significant noise event during the period, mitigations have been implemented to prevent future occurrences. There was a spill in the harbour originating from a container vessel, fortunately, spill containment measures weren't necessary. Work is underway to improve both dust management and reduction.

Our People

Improving our safety practices continues to be a priority for the Port. Focus areas include Port User Safety Management, Emergency Response Management, Traffic Management, and Public Spaces. Pleasingly, we have seen the number of safety incidents decrease over the reporting period from the uplift at the end of last year.

Work continues on developing a stevedore roster that provides more certainty to workers for shifts, while recognising the variable nature of port activity. Relationships with our unions are strong and provide the basis for collaboratively working on improvement opportunities.

Our Community

The sponsorship budget was committed early in the year. We were delighted with the generous response of port suppliers and customers to our charity golf day. A record $28k was raised for Riding for the Disabled. We also welcomed the opportunity to support Te mana Kuratahi, the national primary school kapa haka competition, which included children from a number of our Port whānau.

In addition, we supported the seagrass regeneration project, the Nelson Tasman Export Hub, Moananui and the Tasman Mako.

Aligned with our iwi and Māori partnership plan, a focus for the year was raising awareness of Te Tiriti o Waitangi with the Board and leadership team. Increased use of tikanga is taking place within the Port at a pace that reflects a growing understanding of the value and importance of the customs.

Our Shareholders

The economic challenges driving lower cargo volumes have resulted in an interim Net Profit After Tax for the half year of $2.6m. This is $1.7m, or 40% down on budget and $0.2m or 7% down on last year.

This is a disappointing position for the Port and reflects serious challenges felt by primary produce exporters in Te Tauihu.

The key drivers of the negative variance were the lower log and container revenue numbers. In addition, cost increases were experienced in a number of areas:

- Increased finance costs associated with the accelerated purchase of the new cranes, as well as higher than forecast interest costs. Noting that this impact was reduced by the benefit of closing interest rates hedges with the establishment of Infrastructure Holdings Limited.
- The write-off of bad debts associated with a stranded vessel berthed in port.
- Negative forex movements on currency hedges taken out in association with purchasing the pilot launch, crane and slipway travel lift.
- Increased maintenance costs.

Looking at the second half of the year, concern remains over key commodities such as logs and wine. We also share a high interest in a successful apple and kiwifruit harvest with growers. The impact of new port user charges, such as the infrastructure levy, will also start to contribute in the latter half of the year.

We will see a strong uplift in capital expenditure with three key projects progressing: a new pilot launch ($3.4m), the new electric cranes and related infrastructure ($15m), and the slipway redevelopment ($20m). The slipway project is progressing well, with piling underway and fabrication of the new travel lift committed.

An interim dividend of $1.5m has been approved. The Port is committed to making a total dividend for the year of at least $4.5m.

Statement of Corporate Intent Measures

The Port's performance measures details how the Port will deliver its strategic intent in the 2024 financial year.

The below interim results are for the 6 months up to 31 December 2023. The final outcomes of these measures will be reported on in our 2024 Annual Report.

Performance Measures

		Financial Year June 2024	
Performance Measure		**Full Year Target**	**Interim Result**
Customers			
	Cargo volumes (revenue tonnes)	3,349	1,568
	Container throughput (TEU - twenty-foot equivalent units - thousands)	113	48
	Vessel visits	776	362
	Revenue growth QuayConnect ($m)	1	0.5
	Average container crane rate per hour	>20	19.6
	Improved cont. truck waiting time (mins)	<15	14

		Financial Year June 2024	
Performance Measure		**Full Year Target**	**Interim Result**
Environment			
	Gross reduction on FY19 scope 1 and 2 carbon emissions (cumulative)	18%	on traget
	Gross reduction on FY19 levels in scope 3 carbon emissions (PNL originated)	85%	not on target
	Port's significant noise event & events >85dbH (at monitor)	0 & 8	1 & 13
	Dust events external complaint	0	0
	Port substance spills >10L reach harbour	0	1
People			
	High risk events	<=2	1
	Lost time injuries (LTI) greater than 5 days off work	<=2	2
	Lost time injury frequency rate (LTIFR)	<=1.3	3.13
	Critical risk verification reviews	44	22
	Visible safety leadership events	400	226
Community			
	Utilisation of slipway - (Calwell)	85% or 310 days	100%
	Sponsorship as a percentage of NPAT	> 1.2%	6%
	Dividend $ (% (NPAT) ex. prop. reval.)	$4.5m (50%)	on target
Shareholders			
	Underlying* revenue	$86.1m	$42.8m
	Underlying* earning before interest and taxes	$16.3m	$5.7
	Underlying* net profit after tax	$9.1m	$2.6
	Underlying* return on assets	2.3%	2.1%
	Underlying* return on equity	3.2%	3.0%
	Gearing percentage	21%	22%

**Underlying financial performance excludes recognition of investment property revaluation.*

Statement of Comprehensive Income

For the six months ended 31 December 2023

	Unaudited 6 months Dec 2023	Unaudited 6 months Dec 2022
	$000	$000
Revenue		
Port operations	38,390	38,157
Property	3,569	3,320
Other income	880	-
Total revenue	**42,839**	**41,447**
Expenses		
Employee benefit expenses	13,397	12,411
Other operational and property expenses	18,397	18,366
Earnings before interest, tax, depreciation and amortisation	**11,045**	**10,700**
Depreciation and Amortisation	5,274	5,147
Earnings before interest and tax	**5,771**	**5,553**
Financing costs	2,214	1,716
Net profit before income tax	**3,557**	**3,837**
Income tax	911	991
Net profit after income tax	**2,646**	**2,847**
Other comprehensive income		
Movements in hedging reserve	(701)	1,568
Total other comprehensive income	**(701)**	**1,568**
Total comprehensive income	**1,945**	**4,415**

Statement of Changes in Equity

For the six months ended 31 December 2023

	Unaudited 6 months Dec 2023	Audited 12 months Jun 2023
	$000	$000
Balance at 1 July	**276,798**	**272,824**
Total comprehensive income	1,945	7,974
Dividends	-	(4,000)
Total equity at the end of the period	**278,743**	**276,798**

Statement of Financial Position

As at 31 December 2023

	Unaudited Dec 2023	Audited Jun 23
	$000	$000
Current assets		
Cash and cash equivalents	3,881	1,393
Trade and other receivables	10,626	12,906
Inventories	882	893
Prepayments and accrued income	3,197	393
Assets intended for sale	1,980	-
Derivatives	-	567
Related party advance	551	-
Total current assets	**21,117**	**16,152**
Non-current assets		
Property, plant and equipment	340,779	320,083
Intangible assets	4,051	4,102
Investment properties	35,610	37,590
Derivatives	-	2,673
Total non-current assets	**380,440**	**364,448**
Total assets	**401,557**	**380,600**
Current liabilities		
Trade and other payables	18,065	4,508
Employee benefit entitlements	3,444	3,170
Tax payable	(526)	1,915
Dividend payable	-	2,500
Derivatives	468	-
Noise mitigation	54	83
Bank loan	-	31,200
Lease liabilities	1,052	1,132
Total current liabilities	**22,557**	**44,508**

Statement of Financial Position (continued)

	Unaudited Dec 2023	Audited Jun 23
	$000	$000
Non-current liabilities		
Employee benefit entitlements	362	322
Deferred tax liability	17,727	17,744
Bank loan	-	40,000
Related Party Loan	81,250	-
Noise mitigation	286	285
Lease liabilities	632	943
Total non-current liabilities	**100,257**	**59,294**
Total liabilities	**122,814**	**103,802**
Shareholders' funds		
Issued capital	6,046	6,046
Retained earnings	98,502	95,857
Asset revaluation reserve	174,195	174,195
Hedging reserve	-	700
Total shareholders' funds	**278,743**	**276,798**
Total shareholders' funds and liabilities	**401,557**	**380,600**

Statement of Cash Flows

For the six months ended 31 December 2023

	Unaudited 6 months Dec 23	Unaudited 6 months Dec 22
	$000	$000
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	40,099	36,847
Rent received	3,569	3,320
	43,668	**40,167**
Cash was applied to:		
Payments to suppliers and employees	34,007	30,607
Interest paid	2,214	1,716
Taxes paid	3,151	2,614
Net GST paid/(received)	1,755	(318)
	41,127	**34,619**
Net operating cash inflows	**2,541**	**5,548**
Cash flows from investing activities		
Cash was provided from:		
Sale of property, plant and equipment	-	7
	-	**7**
Cash was applied to:		
Purchase of property, plant and equipment	10,079	2,773
Purchase of intangibles	68	2
Purchase of investment properties	-	4
	10,147	**2,780**
Net investing cash inflows/(outflows)	**(10,147)**	**(2,773)**
Cash flows from financing activities		
Cash was provided from:		
Financial derivatives	3,202	-
Loans borrowed	10,050	650
	13,252	**650**
Cash was applied to:		
Dividend paid	2,500	2,800
Payment of lease liabilities	658	190
	3,158	**2,990**
Net financing cash inflows	**10,094**	(2,340)
Net increase/(decrease) in cash held	2,488	435
Cash and cash equivalents at 1 July	1,393	389
Cash at 31 December	**3,881**	**825**

Summary of Significant Accounting Policies

About this report

Reporting Entity

The financial statements presented are for Port Nelson Limited (the Company) and its subsidiaries (together, Port Nelson or the Group). Port Nelson is a for-profit entity, the Company is incorporated under the Companies Act 1993 and pursuant to the Port Companies Act 1988. The Group consists of Port Nelson Limited, Nelson Marine Precinct Limited, Port Nelson Property Management Limited and Port Nelson Property Investment LLP.

The financial statements have been prepared in compliance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting. Therefore, the financial statements do not include all the information required for full financial statements and should be read in conjunction with the financial statements and related notes as presented in the Port Nelson Limited Annual Report for the year ended 30 June 2023.

The interim financial statements are for the six-month period ended 31 December 2023 and are unaudited.

Basis of Measurement

The financial statements have been prepared under the historical cost method, modified by the revaluation of land, buildings, wharves, investment property and financial instruments. They are presented in New Zealand dollars rounded to the nearest thousand.

Judgements and Estimates

In preparing these financial statements, estimates and assumptions concerning the future are made, which may differ from the subsequent actual results. The estimates and assumptions utilised in these interim financial statements are consistent with the annual financial statements for the year ended 30 June 2023. There are no estimates and assumptions in the view of the Directors that have a risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year.

Foreign Currency

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Monetary items outstanding at balance date are converted at the exchange rate ruling at balance date or the forward exchange contract rate where derivatives have been used to hedge the exposure.

Standards and Interpretations Issued and Not Yet Adopted

Port Nelson has applied all the new and revised accounting standards and interpretations that are effective in the period. This did not result in a material impact on the financial statements.

Accounting Policies

The accounting policies used for the interim period are consistent with those used in the annual financial statements for the year ended 30 June 2023.

Revenue and Expenses

Port operations revenue is recognised over-time as Port Nelson performs the service and the client simultaneously benefits from that service. Progress towards complete satisfaction of each service is estimated based on the service portion performed to the customer, determined using the percentage completion method.

Revenue is measured based on the service price specified in the specific customer contract. Due to the way our contracts are negotiated and structured, the stated contract price for each service performed reflects the value transferred to the customer.

Property lease revenue is accounted for on a straight-line basis. Rentals are payable in advance.

Administration and Other Expenses

Administration and other expenses are recognised as an expense when they are incurred.

Impairment of Assets

Port Nelson regularly reviews the carrying amount of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If an indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Port Nelson has assessed that there have been no significant indicators of impairment since the annual review at 30 June 2023.

Financing Costs

Net financing costs include interest income and finance costs. Interest income is recognised on a time proportionate basis using the effective interest method. Finance costs are expensed as incurred unless related to the acquisition and development of a qualifying asset, in which case they are capitalised.

Taxation

Income tax expense is the tax payable on the current financial years taxable income based on the income tax rate and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised at the rate expected to apply when the assets are recovered, or liabilities are settled.

Deferred tax is charged or credited to the profit or loss, except where it relates to items charged or credited directly to equity, in which case the tax is dealt with in other comprehensive income.

Property, Plant and Equipment and Depreciation

Property, Plant and Equipment is initially measured at cost and subsequently measured at fair value. Costs incurred after initial acquisition are capitalised only when it is probable that future economic benefit will flow to Port Nelson and the items can be reliably measured. Dredging is not amortised. The cost of maintaining the dredged depth is expensed. Port Nelson measures all Property, Plant and Equipment as a single unit using the income-based approach. Port Nelson has assessed that there has been no material movement in the fair value of Property, Plant and Equipment from the amounts reported in the annual financial statements for the year ended 30 June 2023.

Depreciation is written off depreciable assets on a straight-line basis over the estimated economic lives of the assets, ranging as follows:

Asset	Depreciation Rate
Plant, Furniture and Equipment	2 to 50 years
Infrastructural Assets	3 to 50 years
Wharves and Berths	3 to 67 years
Buildings	2 to 50 years

Intangible Assets

Intangible assets comprised of software, licences, and Goodwill. Software and licences have finite useful lives and are measured at cost less accumulated amortisation and any accumulated impairment losses. Goodwill is measured at cost less any accumulated impairment losses.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Port Nelson are recognised as intangible assets only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and if Port Nelson intends to and has sufficient resources to complete development and to use or sell the asset. Directly attributable costs that are capitalised as part of the software include employee costs.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. After initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over a period of 3-14 years.

The amortisation expense of intangible assets is included in the depreciation and amortisation expense total disclosed in the Statement of Comprehensive Income.

Investment Properties

Investment Property is property held to earn rentals and capital appreciation and is measured at its fair value. Gains or losses from changes in the fair value of investment property are included in the profit or loss in the period in which they arise.

Valuation Basis

Investment properties are revalued every year. Investment properties were valued on 30 June 2023 by Ian McKeage, Registered Valuer, FNZIV, FPINZ of Telfer Young. The valuer's have recent experience in the location and category of the item being valued.

Financial Risk Management

Port Nelson is exposed to various financial risks due to its operations. To manage these risks, it follows its Treasury Policy which guides management on undertaking appropriate financial risk management activities. This includes the use of derivative financial instruments to manage the risks. It's worth noting that Port Nelson does not engage in speculative trades.

Interest Rate Risk

Port Nelson is exposed to interest rate risk on the cash flows arising from its variable rate borrowings provided by, its parent company, Infrastructure Holdings Limited. Interest rate exposures of this nature are managed by Infrastructure Holdings Limited in accordance with the Group Treasury Policy. The policy outlines borrowing parameters which require the fixing of interest rates for specified portions of borrowings based upon the term remaining and outlines the approved derivative instruments that can be used to do this. Refer to the financial statements of Infrastructure Holdings Limited for more information.

Credit Risk

Port Nelson is exposed to credit risk on its cash and cash equivalents from the possibility of counterparties failing to perform their obligations. This risk is represented by the carrying value in the Statement of Financial Position. Port Nelson considers this risk to be not material.

Trade and Other Receivables

Trade and Other Receivables arise in the ordinary course of Port Nelson's business and are initially valued at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. Port Nelson invoices for services as they are performed, monthly. They are non-interest bearing and have payment terms of the 20th of the month of receipt of invoice but vary on a case-by-case basis between 7 to 61 days.

Currency Risk

Port Nelson is exposed to currency risk on purchases of plant and equipment from overseas which it undertakes from time to time. Management actively monitors the currency risk exposure and will enter forward foreign exchange contracts to hedge this risk where required by the Treasury Policy.

Liquidity Risk

Liquidity risk is the risk that Port Nelson will encounter 'difficulty' raising funds to meet commitments as they fall due. Liquidity risk is managed by maintaining sufficient cash. This is achieved by ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method where this differs from face value. Port Nelson classifies its borrowings as non-current unless it does not have the right defer payment for over 12 months, in which case they are classified as current.

Trade and other payables are recognised at fair value on receipt of goods and services. Payment normally occurs within 30 days. These are non-interest bearing.

Provisions

Employee Entitlements

Provisions for wages, salaries, annual leave, and long service are made when earned by the employee. Provision for gratuities are recognised as expenses when employees have rendered services entitling them to the contributions.

Annual leave and long service leave provisions have been calculated on an actual entitlement basis at current rates of pay. Retirement gratuities are calculated at current rates of pay assuming the payment will be made upon retirement.

Noise Mitigation

Port Nelson reviews its Noise Mitigation provision each year as the mitigation work is undertaken. The provision relates to Stages One, Two and Three. The Noise Variation within the Nelson City Resource Management Plan became operative on the 23rd February 2012. Port Nelson has quantified the costs of its obligation as at 31 December 2023.

Port Nelson recognises it has an obligation to assist with noise mitigation works for noise-affected properties adjacent to the port. Noise mitigation costs may include building work, professional fees, building consents, preparation of drawings and project management.

Events after Balance Date

There were no other significant events after balance date.


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HAMBURG SÜD
MAERSK
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Port Nelson
Nelson 7010, New Zealand