



Port Marlborough

Half Year Report

31 December

2018



PORT **marlborough**
NEW ZEALAND LTD



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Chairman's Half Year Review

For the Half Year Ended 31 December 2018 (Unaudited)

FINANCIAL RESULTS

The Group's half year result shows revenue at \$15.22m (December 2017: \$13.96m) and a pre-tax operating surplus of \$5.41m (December 2017: \$4.61m).

Total assets are recorded at \$178.17m (December 2017: \$171.03m) and Shareholder's Funds at \$133.51m (December 2017: \$125.72m).

INTERIM DIVIDEND

Directors will consider the payment of an interim dividend later in the year.

BOARD OF DIRECTORS

At the December AGM Messrs Besley, Boyd and Taylor retired by rotation and were reappointed.

As had previously been signalled to the Shareholder, Chairman Ed Johnson retired from the Board in December. More fulsome acknowledgement of Mr Johnson's contribution will be included in the Annual Report.

Keith Taylor has been appointed Chairman; and Ms Jennifer Moxon has been appointed as a Director.

HEALTH AND SAFETY

The port precinct is a multi-hazard zone with numerous activities and operators in specific high-use areas. Our Marina precincts include high-risk activities, multiple commercial users, and extensive public access. Port Marlborough's responsibility for health and safety across our operations is therefore complex and extensive. We actively work with users of our facilities and services to ensure a cooperative, collaborative and consultative approach to achieving zero harm.

In June the main Port precinct transitioned to a fully restricted zone, with swipe card access through the manned Lagoon Road port gateway the only point of entry. This development had been well-signalled to Port users and has been widely accepted.

At Havelock, the process of developing Common User Safety Protocols is underway, reflecting successful introduction of this approach in Picton the prior year.

Internally, a comprehensive staff Drug and Alcohol Policy was introduced in association with the RMTU. Provision of Health and Safety services within the business was reviewed during the period and a transition to a wider health, safety, environment and quality (HSEQ) approach is underway.

COMPLIANCE

We continued to maintain our operations within the provisions of the New Zealand Port and Harbour Marine Safety Code throughout the period, consistent with our ongoing commitment to navigational safety.

Port Marlborough's Port Operations performance in the compliance arena has been recognised by Maritime NZ as a best-in-class example of implementation under the ISPS (International Ship and Port Facility Security Code). In December, MNZ together with representatives of the US Coastguard (the ISPS lead agency) and the Cook Island Ports Authority visited the Port for two days to observe operations. Our Port Manager has been invited to visit the Cook Islands in coming months in an advisory capacity, and to assist an ISPS review process in Hawaii later in the year.

OPERATIONAL PERFORMANCE

Continued strong performance across the Company's operational portfolio has produced a half-year operating surplus consistent with budget and generally ahead of the prior year.

PORT

Log and ferry trades continue at anticipated steady levels including a seasonal upsurge in Cook Strait ferry passenger and freight volumes heading into the peak summer season. Reinstatement of fully operational rail activity on the Main Trunk Line south from Picton has impacted to a degree on the freight mix.

Twelve cruise vessels visited Picton during the period. Picton's growing reputation as a port and community able to host cruise vessels at short notice was reinforced when Port Marlborough, commercial operators and the community responded in early November to an unplanned visit of *Ovation of the Seas* at just 36 hours' notice, successfully hosting 4,500 unexpected visitors to Marlborough.

The harbour tug *Monowai* was on charter to her original home port of Bluff for several weeks in July. This improved vessel utilisation and delivered an unanticipated but welcome boost to marine revenue.

We continue to work with Cook Strait ferry operators StraitNZ and Interislander regarding future terminal and berth requirements for their fleets. An internal Interislander announcement in December confirmed that two new large rail-capable ships are intended to be operational in 2024. This announcement increases clarity of port-side requirements, clearing the way for increased planning pace for this project. Importantly, establishing certainty around the ferry precinct design is meaningful for the master-planning of our future whole-of-port needs.

MARINAS

Occupancy levels remain at or very close to 100% across all products in Picton and Waikawa Marinas reflecting ongoing buoyancy in the recreational marine sector. Berth occupancy at Havelock continues to increase, sitting at 86% for December; while all boatsheds and secure compounds at Havelock are full.

With resource consent secured for expansion of Waikawa Marina by approximately 240 berths, we are now focused on development of a project business case and analysis of the wider benefits of development. Contingent upon favourable outcomes from this process, detailed design will proceed immediately for an expected start to construction late winter 2019, with completion anticipated in summer 2020.

PROPERTY

Significant developments at Havelock for Clearwater Mussels and Cloudy Bay Clams are due for completion in March. Delivery of these projects will signal near-full occupancy of the southern reclamation at Port Havelock. Ongoing high tenancy rates across the property portfolio render this an important and productive part of our business.

STAFF

The company's Port Services function was established in 2005 as a result of the international introduction of ISPS and the resulting NZ Port Security Act. In collaboration with the RMTU we have established a Port Services Review project to ensure that all aspects of the function are productively delivering on contemporary needs, with appropriate facilities in place for the staff who provide this important 24/7 function. To date, minor changes to staffing allocations have been agreed, and a slight rostering change is being trialed.

Further consolidation of the company's provision of Marine Services has been signalled by the appointment effective 1 April 2019 of Captain Matt Conyers to the new role of Marine Manager, responsible for pilotage and towage functions. Captain Conyers is currently a part-time contract Pilot for Port Marlborough, and will continue to provide pilotage services in his new role. This appointment addresses a critical business risk by securing a second fully qualified Pilot as a permanent member of staff.

ENVIRONMENT AND COMMUNITY

We have a strong commitment to protecting the future by considering the environmental, economic, community and cultural impacts of our decisions. We operate at the heart of our community, and are deeply committed to sharing ideas, understanding our communities' perspectives, collaborating and celebrating with them. These commitments drive our operational activities and community interactions.

We continue to undertake routine environmental monitoring across all operations and development works. There have been no significant environmental incidents during the period.

Our engineering team has worked to consolidate and improve stormwater consenting and management for port and marina operations within the Picton Bay catchment, and new consents have been achieved. A similar exercise is underway at Waikawa to improve environmental outcomes.

The company's upgrade of vehicles to improve energy efficiency and emissions continued, replacing a petrol vehicle with an electric vehicle and exploring options for installation of EV stations in our operational areas.

This year, we've launched the 'Port Marlborough Sounds Discovery Fund' to assist primary schools in Marlborough with their educational visits to the Marlborough Sounds. So far, the fund has enabled thirteen classes each from different primary schools across Marlborough to spend a day on the cutter Steadfast with the ship's master and a University of Otago marine scientist. The children (many of whom have never been in the Sounds) explored the marine environment through experimentation, and took part in traditional nautical and sailing tasks.

Along with the Department of Conservation, Port Marlborough is a 'Foundation Partner' of the Kaipupu Wildlife Sanctuary. We're delighted to take that partnership to the next level by now providing fully sponsored long-term accommodation to the Kaipupu Sanctuary team, along with similarly focused community environmental groups Picton Dawn Chorus and Envirohub. These groups will collectively occupy retail premises at the Auckland Street frontage of the main Port Marlborough administration building, which we already share with DOC – making the co-location a natural fit. On behalf of the groups, we acknowledge Marlborough District Council councillors and staff for their support of this collaboration.

Completion of the Link Pathway from Linkwater right through to Picton just before Christmas marks a huge achievement by the Link Pathway Trust. The section through Shakespeare Bay and Picton includes transit across sensitive areas of Port-owned land, including a covenanted section of lowland podocarp forest, and a covenanted wetland. The Link Pathway Trust met this challenge through high-quality design including boardwalks, thus ensuring that environmental restoration can continue unhindered in parallel with excellent access for Link Pathway users.

THE NEXT SIX MONTHS

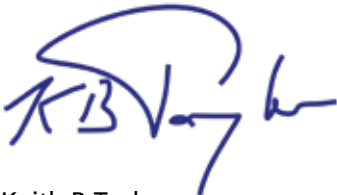
Operational projections for the remainder of the year are largely in line with budget. Repairs and Maintenance spend is anticipated to return within plan subsequent to early delivery of some works during the first half-year. Revenue for the remainder of the year is forecast at budget, and lower than the first half year recognising the unscheduled harbour-tug charter and other unplanned business picked up in the first six months.

Detailed planning for extension of Waikawa Marina will be completed ahead of an anticipated late-winter start to construction, subject to Board approval.

Following Interislander's decision to re-tonnage with rail-capable ships, planning will proceed for ferry precinct redevelopment, coupled with a whole-of-port masterplanning review.

On behalf of the Board, I thank all staff for their contribution to the safe, incremental growth and continuous improvement that we are collectively achieving. This is a time of much opportunity for Port Marlborough, and our ongoing success in delivering excellence to our customers and other stakeholders is built on our clear focus, backed by the collaborative mind-set evident across the internal team.

For and on behalf of the Board of Directors:



Keith B Taylor
Chairman

Consolidated Income Statement

For the Half Year Ended 31 December 2018 (Unaudited)

Year ended		Six months ended	
30 June 2018 \$000		31 Dec 2018 \$000	31 Dec 2017 \$000
28,610	Revenue	15,218	13,964
77	Other income	29	39
2,913	Investment property revaluation	-	-
(7,791)	Operations and maintenance	(4,307)	(3,974)
(6,512)	Employee benefits expense	(3,397)	(3,310)
(2,925)	Depreciation, impairment and amortisation expense	(1,512)	(1,477)
(1,257)	Interest	(622)	(634)
(239)	Other expenses – subvention payments	-	-
12,876	Operating surplus	5,409	4,608
(127)	Derivatives (non cash)	(156)	(110)
12,749	Profit before income tax expense	5,253	4,498
(2,261)	Income tax expense	(1,472)	(1,262)
10,488	Profit for the period	3,781	3,236

The accompanying notes form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Comprehensive Income

For the Half Year Ended 31 December 2018 (Unaudited)

<u>Year ended</u>		<u>Six months ended</u>	
30 June		31 Dec	31 Dec
2018		2018	2017
\$000		\$000	\$000
10,488	Profit for the period	3,781	3,236
	Other comprehensive income net of tax		
	Items that will never be classified to profit or loss:		
(305)	(Loss)/Gain on revaluation of property, plant and equipment	-	(305)
85	Income tax relating to revaluation of property, plant and equipment	-	85
10,268	Total comprehensive income for the period, net of tax	3,781	3,016
10,268	Comprehensive income attributable to members of parent entity	3,781	3,016

Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2018 (Unaudited)

<u>Year ended</u>		<u>Six months ended</u>	
30 June		31 Dec	31 Dec
2018		2018	2017
\$000		\$000	\$000
124,608	Balance at beginning of period	131,751	124,608
10,268	Total comprehensive income for the period (net of tax)	3,781	3,016
(3,125)	Dividends	(2,025)	(1,902)
131,751	Balance at end of the period	133,507	125,722

The accompanying notes form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018 (Unaudited)

Year ended		Six months ended	
30 June		31 Dec	31 Dec
2018		2018	2017
\$000		\$000	\$000
CURRENT ASSETS			
1,171	Cash and cash equivalents	293	1,674
2,042	Trade and other receivables	2,396	2,634
300	Inventories	338	281
3,513	Total current assets	3,027	4,589
NON-CURRENT ASSETS			
87,108	Property, plant and equipment	86,556	87,782
84,744	Investment property	88,076	78,090
528	Other intangible assets	510	567
172,380	Total non-current assets	175,142	166,439
175,893	Total assets	178,169	171,028
CURRENT LIABILITIES			
2,606	Trade and other payables	2,563	2,096
12	Current tax liabilities	425	377
128	Other financial liabilities - derivatives	57	-
2,746	Total current liabilities	3,045	2,473
NON-CURRENT LIABILITIES			
27,500	Borrowings from MDC Holdings Ltd	27,500	28,500
12,229	Deferred tax liabilities	12,223	12,556
1,667	Other financial liabilities - derivatives	1,894	1,777
41,396	Total non-current liabilities	41,617	42,833
44,142	Total liabilities	44,662	45,306
131,751	Net assets	133,507	125,722
EQUITY			
13,588	Capital and other equity instruments	13,588	13,588
2,693	Capital reserve	-	2,693
44,787	Revaluation reserve	44,787	44,787
70,683	Retained earnings	75,132	64,654
131,751	Total equity	133,507	125,722

The accompanying notes form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Cash Flows

As at 31 December 2018 (Unaudited)

<u>Year ended</u>	<u>Six months ended</u>		
30 June 2018 \$000	31 Dec 2018 \$000	31 Dec 2017 \$000	
CASH FLOW FROM OPERATING ACTIVITIES			
28,390	Receipts from customers	15,523	13,708
30	Interest received	8	13
(14,573)	Payments to suppliers and employees	(8,292)	(7,948)
(1,260)	Interest and other costs of finance paid	(615)	(629)
(277)	Subvention payments	(239)	(277)
(2,742)	Income tax paid (Net of refunds)	(1,065)	(1,050)
9,568	Net cash provided by operating activities	5,320	3,817
CASH FLOW FROM INVESTING ACTIVITIES			
30	Proceeds from sale of property, plant and equipment	24	-
(1,873)	Payment for property, plant and equipment	(915)	(1,305)
(4,247)	Payment for investment property	(3,248)	(761)
(7)	Payment for intangible assets	(34)	-
(6,097)	Net cash used in investing activities	(4,173)	(2,066)
CASH FLOW FROM FINANCING ACTIVITIES			
(2,000)	Repayment of borrowings	-	(1,000)
(3,125)	Dividends paid	(2,025)	(1,902)
(5,125)	Net cash used in financing activities	(2,025)	(2,902)
(1,654)	Net increase in cash and cash equivalents	(878)	(1,151)
2,825	Cash and cash equivalents at the beginning of the financial period	1,171	2,825
1,171	Cash and cash equivalents at the end of the financial period	293	1,674

The accompanying notes form part of and should be read in conjunction with these financial statements.

Notes to the Consolidated Financial Statements

For the Half Year Ended 31 December 2018 (Unaudited)

1. Accounting policies – Statement of compliance

The Company and Group is a profit-oriented company incorporated in New Zealand. Its principal products and services are the provision of port and marina facilities at the northern tip of the South Island of New Zealand. The Company is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with that Act and the Companies Act 1993. The Company is a port company for the purposes of the Port Companies Act 1988 and its financial statements comply with that Act.

The parent entity is MDC Holdings Limited, which is a 100% owned subsidiary company of the Marlborough District Council.

The condensed consolidated interim financial statements have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZIFRS) NZIAS 34 Interim Financial Reporting.

The unaudited financial statements for the six months to 31 December 2018 have been prepared in accordance with the Accounting Policies as stated in the financial statements for the year ended 30 June 2018.

1.1 New standards adopted

New and revised NZ IFRSs affecting the reported financial performance and/or financial position.

Impact of application of NZ IFRS 15 Revenue from Contracts with Customers.

In the current year, Group has adopted NZ IFRS 15 Revenue from Contracts with Customers (Issued July 2014) which introduces a 5-step approach to revenue recognition. The more prescriptive guidance has been added in NZ IFRS 15 to deal with specific scenarios.

Group's accounting policies for its revenue streams are disclosed in detail below. Apart from changes to the financial statement disclosures, the adoption of NZ IFRS 15 has had no impact on the financial position and/or financial performance of Group for the current and prior years. The Group applied the new standard retrospectively with the cumulative effect of initially applying this Standard recognised at the date of the initial application.

Revenue recognition policies

As a direct result of adopting new standards it has been necessary to follow new revenue recognition policies. These are set out below:

Rendering of services – Revenue from rendering of key services consists of revenue arising from cruise vessels, log storage, log wharfage, pilotage / towage and berthage.

Revenue is measured based on the transaction price specified in the contract with a customer. Group recognises revenue when the performance obligations are satisfied following the transfer of the promised services to customers.

Cruise vessels

Group provides a service of port access for cruise vessels. Revenue on such services are recognised upon the departure of the vessel as this is deemed to be the point at which the performance obligation is satisfied.

Log storage

Group provides a service of log storage. Such services are recognised over the time period of storage.

Log wharfage

Revenue on log wharfage is recognised upon on the date the vessel sails as this is deemed to be the point at which the performance obligation is satisfied.

Pilotage / towage

Revenue on pilotage/towage is recognised upon the transfer of the promised service to customers as this is deemed to be the point at which the performance obligation is satisfied.

Berthage

Revenue on berthage is recognised over the time period of the vessels stay in the berth.

Impact of application of NZ IFRS 9 Financial Instruments

In the current year, Group has applied NZ IFRS 9 Financial Instruments (as revised September 2014) after it becomes mandatory.

NZ IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Hedge accounting is not relevant to the Group. Group has applied NZ IFRS 9 in accordance with the transition provision set out in NZ IFRS 9.

Apart from changes to the financial statement disclosures, the adoption of NZ IFRS 9 has had no impact on the financial position and/or financial performance of Group for the current and prior years.

The financial statements were authorised for issue by the Directors on 15 February 2019.

The financial statements comprise the activities of Port Marlborough New Zealand Limited and the other entities in which the Company has a significant interest.

The group consists of:

- Port Marlborough New Zealand Limited
- Waikawa Marina Trustee Limited
- Marina Holdings Limited

2. Reconciliation of profit for the period to net cash flows from operating activities

<u>Year ended</u>		<u>Six months ended</u>	
30 June 2018 \$000		31 Dec 2018 \$000	31 Dec 2017 \$000
10,488	Profit after tax for the period	3,781	3,236
(42)	(Gain)/loss on sale or disposal of non-current assets	(17)	(33)
(2,913)	(Gain)/loss on revaluation of investment property	-	-
127	(Gain)/loss on revaluation of derivative instruments	156	110
2,925	Depreciation impairment and amortisation of non-current assets	1,512	1,477
(303)	Increase/(decrease) in deferred tax balance	(6)	25
	Changes in net assets:		
	(Increase)/decrease in assets:		
(333)	Current receivables	(354)	(925)
(4)	Current inventories	(38)	15
	Increase/(decrease) in liabilities:		
235	Current payables	(43)	(275)
(434)	Investment activities included in payables	(84)	-
(178)	Current tax	413	187
9,568	Net cash from operating activities	5,320	3,817

3. Commitments for expenditure

<u>Year ended</u>		<u>Six months ended</u>	
30 June 2018 \$000		31 Dec 2018 \$000	31 Dec 2017 \$000
2,956	Total capital expenditure contracted for at balance date but not provided for in the accounts	2,471	2,131

4. Contingent liabilities

The group had no contingent liabilities as at 31 December 2018. (2017 nil).

5. Events subsequent to balance date

There have been no material events subsequent to 31 December 2018. (2017 nil).

Directory

BOARD OF DIRECTORS:

Keith B Taylor	BSc, BCA, FIA, CFInstD, ONZM	Chairman
Edwin G Johnson	BA (Hons) Finance and Accounting MBA (Hons), CFInstD	(Retired 10 December 2018)
Andrew R Besley	MPM, BA (Hons), Dip Acc, Dip Tchg., MInstD	
Ian R Boyd	B.For.Sc., CMInstD, MNZIF	
Peter S Drummond	MNZM, CFInstD	
Martin F Fletcher	CA, MInstD	
Mathew B J Kerr	B.B.S. MInstD, CA	
Jennifer C Moxon	BA Economics and Psychology MInstD	(Appointed 10 December 2018)

EXECUTIVE:

Rhys Welbourn	MBA, BA (Hons), PG Dip. GIS, Dip Eng (Civil)	Chief Executive
Dean Craighead	BCom, CA	Chief Financial Officer
Gavin Beattie	BE Mech (Hons) MIPENZ CPEng	Infrastructure Manager
Anouk Euzeby	MBA, BA (Hons), IUT (eqv Dip)	Commercial Manager
Rose Prendeville	B.Tech (I.E), Dip.PM (NZIM)	Capabilities Manager
Tory Tane		Port Manager

REGISTERED OFFICE:

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LEGAL ADVISOR:

Radich Law

Port Marlborough New Zealand Limited would like to thank the following photographers for their contribution:

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Page 13: Richard Briggs Photography





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