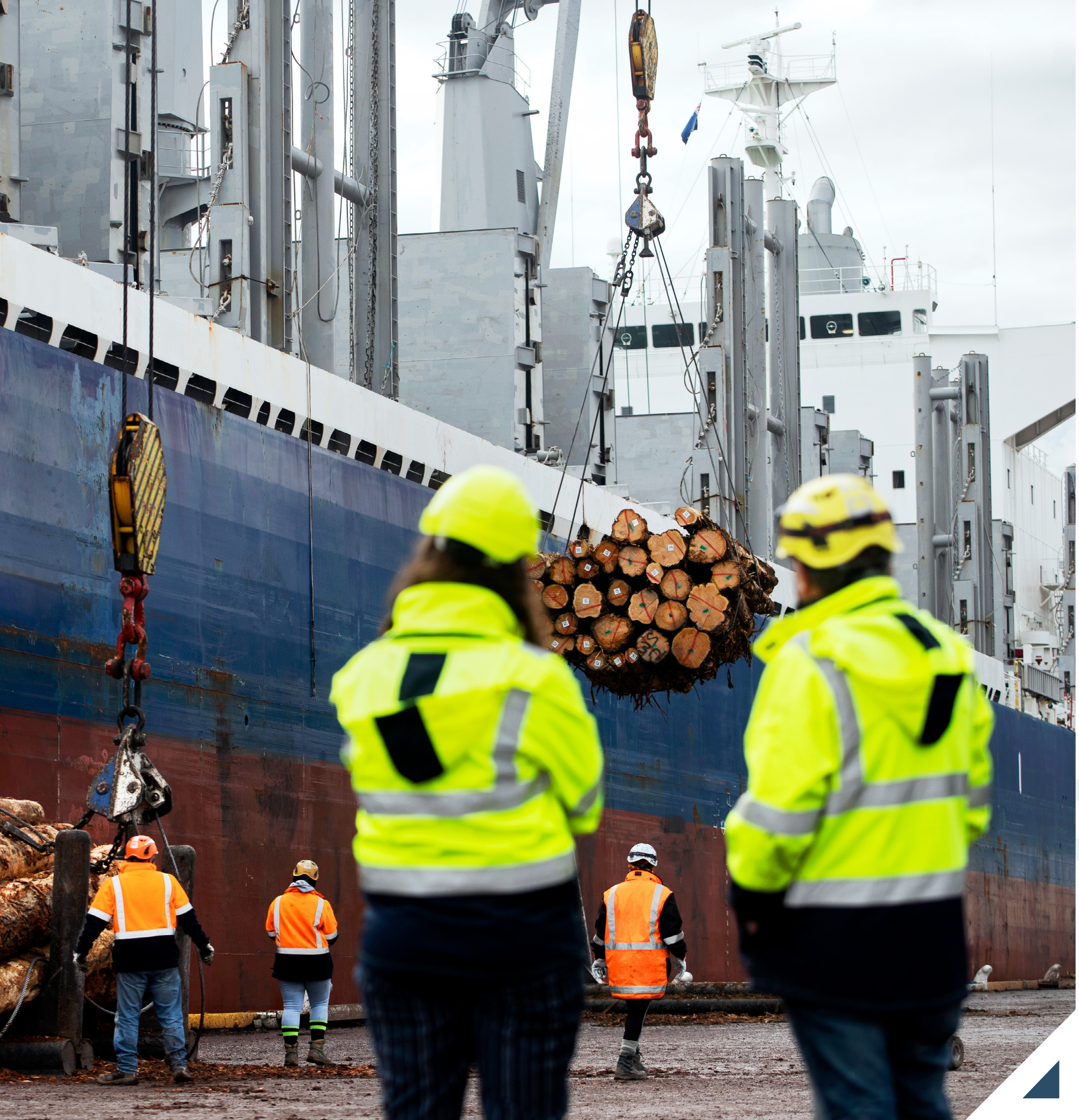
INTERIM FINANCIAL REPORT

For the six months ended 31 December 2021

PORT NELSON



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Performance Commentary

For the six months ended 31 December 2021

The first half of the 2022 financial year reflected many of the elements experienced in 2021: volatile shipping; Covid impacts on operations; and rising operational costs.

Export volumes performed better than expected and deferment of maintenance dredging due to lower than expected sediment build up has assisted the Port to deliver strong financial results for the half year.

Reviewing the period through our stakeholder lenses:

Our Shareholders

An interim Net Profit after Tax for the six months to 31 December 2021 of $4.64 M was achieved. This compares to $4.34 M for the same period last year (a 7% increase).

Revenue for the period was $37.5 M, up 10% on last year. The Port's 4PL logistics business, QuayConnect, was the main contributor to the uplift In addition, strong wine and processed timber volumes made a positive contribution.

Redevelopment of the Log Yard was completed. This has increased log storage capacity at the wharf and freed up the Wildman Avenue site to enable the development of the Science & Technology Precinct. Important maintenance works commenced to repair underwater timber piles on many of the older wharves. This work plus the upcoming wharf deck repairs, will enable the Port to continue operating the existing wharves for the medium term.

Our Customers

Cargo volumes (revenue tonnes – RT) and container throughput (twenty-foot equivalent units – TEU) to 31 December were 1.6 million RT and 52 thousand TEU. This compares to last year's result at this time of 1.59 million RT and 53 thousand TEU.

Cargo variances of note include a stronger than expected apple export result reflecting shipping delays at the end of the 2021 financial year. Wine volumes also held up well given the poor 2021 harvest. Strong construction activity globally supported the export of processed timber (including MDF).

Acting against these positive variances, fuel was again lower than historical volumes and general imports and exports were lower than expected, reflecting difficulties in booking slots on container vessels.

Shipping reliability was improved in 2021 with fewer omissions, however vessels continue to not meet scheduled arrival times due to delays at other ports.

Our People

Like all businesses, the impact of Covid has dominated the People aspects of the business over this period. Over half the Port team are subjected to regular Covid tests and the vast majority are vaccinated. Moving into the second half of the year the Port will establish a mandatory testing programme which, together with existing measures, will look to keep Covid out of the port operational environment.

One consequence of establishing work cells to reduce the potential spread of Covid has been the deferral of critical risk reviews by peers and senior management. With Covid testing in place, the annual programme of reviews will be completed over the remainder of the year.

The Lost Time Injury Frequency Rate (LTIFR) has dropped from 2.4 incidents per 100,000 hours in July 2021 to 1.8 at 31 December 2021.

Our Environment

The completion of the Log yard project has included the installation of a stormwater system that improves filtration of log debris. This engineered solution plus improved operational process, will further assist in stopping the risk of debris movement across the wharves.

No significant noise events were recorded for this period. Work continues with the Noise Liaison Committee to ensure open communications with residents in proximity to the Port.

Our Community

With the support of iwi, the Port has appointed a Kaumātua to assist its relationship with iwi and its Te Ao Māori journey.

Statement of Corporate Intent

For the six months ended 31 December 2021

Purpose

To facilitate regional prosperity.

Objectives

The Company's purpose of facilitating regional prosperity is underpinned by five strategic pillars; customers, environment, people, community, and shareholders.

Provide leading port and logistics operations and drive supply chain innovation

Improve our environment

Build and keep safe a high-performing team

Improve our community

Deliver strong returns to our shareholders

Performance Targets

		Financial Year June 2022	
Performance Measure		**Full Year Target**	**Interim Result**
Customers			
	Cargo Volumes (revenue tonnes)	3.3	1.6
	Container Throughput (TEU - Twenty-Foot Equivalent Units)	111,000.0	51,785.0
	Vessel Visits	781	374
	Average container crane rates per hour	21.4	19.5
	Customers engagement survey satisfaction score	70%	85%
Environment			
	Gross reduction on FY19 Scope 1 and 2 carbon emissions	9%	on target
	Gross reduction on FY19 levels in scope 3 carbon emissions (controlled by PNL)	2%	on target
	Maintain Port Nelson's ISO 14001 Certification	Yes	Yes
	Significant noise events >89 dbA LMAX at the noise monitor	Nil	Nil
	A Port Nelson sponsored initiative to halt the loss of biodiversity/prevent the extinction of threatened species	Yes	Yes
	Uncontrolled discharges from the Port Nelson operational area to the coastal marine area	Nil	1
	Compliance with regulatory requirements	100%	100%
	Compliance with NZ Maritime safety standards	100%	100%
People			
	Critical Risk Verification Reviews	> 50	6
	Lost Time Injury Frequency Rate	< 2	1.6
	Lost Time Injuries greater than 5 days	< 4	2
	Employee engagement survey	70%	To be completed
Community			
	Dividends paid to the shareholders	4,300.00	-
	Sponsorship as a percentage of NPAT	> 1.2%	1.80%
	Iwi Engagement and Te Ao Māori Plan	Developed and agreed	Draft plan commenced and Kaumātua appointed
	Nelson Slipway Redevelopment	Commenced	Redevelopment options finalised by March 2022
	Port Nelson will hold a public open day		Delayed due to COVID settings
Shareholders			
	Revenue ($mil)	72	37
	EBIT ($mil)	13.4	7.9
	Net Profit after Taxation ($mil)	8.6	4.6
	Return on Equity	3.70%	5.00%
	Gearing Ratio	< 45%	23.30%
	Return on Assets (NPAT/Total Assets)	2.20%	3.60%

Statement of Comprehensive Income

For the period ended 31 December 2021

	2021	2020
	$000	$000
Revenue		
Port Operations	34,524	32,782
Property	2,969	2,962
Total revenue	**37,493**	**35,744**
Expenses		
Employee Benefit Expenses	11,243	10,418
Other Operational and Property Expenses	13,538	13,144
Earnings before Interest, Tax, Depreciation and Amortisation	**12,712**	**12,182**
Depreciation and Amortisation	4,772	4,572
Earnings before Interest and Tax	**7,940**	**7,610**
Net Financing Costs	1,479	1,508
Net profit before income tax	**6,461**	**6,102**
Income Tax	1,817	1,764
Net profit after income tax	**4,644**	**4,338**
Other comprehensive income		
Movements in Hedging Reserve	2,001	880
Total other comprehensive income	**2,001**	**880**
Total comprehensive income	**6,645**	**5,218**

Statement of Changes in Equity

For the period ended 31 December 2021

	Dec 21	Dec 20
	$000	$000
Balance at 1 July	**261,700**	**250,360**
Total Comprehensive Income	**6,645**	**5,218**
Dividends	560	-
Balance at 31 December	**267,785**	**255,578**

Statement of Financial Position

As at 31 December 2021

	2021	2020
	$000	$000
Current assets		
Cash and Cash Equivalents	1,070	322
Trade and Other Receivables	9,052	11,089
Inventories	857	594
Prepayments and Accruals	1,747	1,786
Assets Intended for Sale	2,223	15
Total Current Assets	**14,949**	**13,806**
Less current liabilities		
Trade and Other Payables	4,209	3,584
Employee Benefit Entitlements	2,757	2,375
Tax Payable	930	304
Derivatives - Cash Flow Hedges	150	262
Noise Mitigation	168	169
Total Current Liabilities	**8,215**	**6,694**
Working capital	**6,734**	**7,112**
Non-current assets		
Property, Plant and Equipment	332,873	326,953
Intangible Assets	1,129	953
Investment Properties	29,409	25,484
Derivatives - Cash Flow Hedges	1,069	13
Total Non-Current Assets	**364,481**	**353,403**
Less non-current liabilities		
Employee Benefit Entitlements	254	246
Deferred Tax Liability	19,275	18,720
Term Loan	82,200	80,670
Derivatives - Cash Flow Hedges	999	4,644
Noise Mitigation	407	196
Lease Liabilities	295	461
Total Non-Current Liabilities	**103,430**	**104,937**
Net assets	**267,785**	**255,578**
Shareholders' funds		
Issued Capital	6,046	6,046
Retained Earnings	87,467	78,683
Asset Revaluation Reserve	174,276	174,276
Hedging Reserve	(4)	(3,427)
Total shareholders' funds	**267,785**	**255,578**

Statement of Cash Flows

For the period ended 31 December 2021

	2021	2020
	$000	$000
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	35,237	32,949
Rent received	2,969	2,986
Interest received	1	-
	38,207	**35,935**
Cash was applied to:		
Payments to suppliers and employees	26,384	26,031
Interest paid	1,480	1,505
Taxes paid	2,709	1,536
Net GST paid/(received)	(204)	48
Purchase of Assets Held for sale	2,223	-
	32,593	**29,120**
Net operating cash inflows	**5,614**	**6,815**
Cash flows from investing activities		
Cash was provided from:		
Sale of property, plant and equipment	74	-
	74	0
Cash was applied to:		
Purchase of property, plant and equipment	8,277	-
Purchase of intangibles	7	13,580
	8,283	**13,580**
Net investing cash inflows/(outflows)	**(8,210)**	**(13,580)**
Cash flows from financing activities		
Cash was provided from:		
Loans borrowed	6,530	-
	6,530	**0**
Cash was applied to:		
Dividend paid	3,060	-
Payment of lease liabilities	178	2,500
	3,238	**2,500**
Net financing cash inflows	**3,292**	**(2,500)**
Net increase/(decrease) in cash held	697	(9,265)
Cash and cash equivalents at 1 July	374	220
Cash at 30 June	**1,070**	**(9,045)**

Summary of Significant Accounting Policies

About this report

Reporting Entity

Port Nelson Limited (Port Nelson) is a for-profit company incorporated under the Companies Act 1993 and created pursuant to the Port Companies Act 1988.

Port Nelson operates in one industry and one geographical segment, providing marine services including pilotage, towage, navigation aids, berths and wharves, container terminal and cargo handling services, slipway services, cargo logistics including warehousing and distribution, investment properties and supply chain and 4PL solution services at the port of Nelson and within the wider Nelson/Marlborough region.

Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable reporting standards as appropriate for profit-orientated entities.

The financial statements are presented in New Zealand dollars rounded to the nearest thousand.

To assist the reader further, these interim financial statements 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 2021.

Basis of Measurement

Those accounting principles considered appropriate for the measurement and reporting of results and financial position under the historical cost method, modified by the revaluation of land, buildings, wharves, investment property and financial instruments have been followed.

Judgements and Estimates

In preparing these financial statements Port Nelson has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results and are continually being evaluated based on historical experience and other factors, including expectations or future events that are expected to be reasonable under the circumstances.

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. Capital items 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.

Notes to the Financial Statements

Information that is considered material and relevant to the users of these financial statements is included within the notes to the financial statements. The assessment of materiality and relevance includes qualitative as well as quantitative factors, including the size and nature of the balance and if the balance is important in understanding Port Nelson's current or future performance.

Standards and Interpretations Issued and Not Yet Adopted

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

Accounting Policies

There have been no changes in accounting policies during the financial year disclosed in the Financial Statements.

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements, are provided throughout the notes to the financial statements.

Revenue and Expenses

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 for 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.

There are no material variable consideration, financing or non-cash components to consider in determining the transaction price.

Revenue derived from customers that do not have contracts with Port Nelson is not considered significant and therefore has not been separately disclosed.

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

Non-cancellable operating leases represent undiscounted future expected lease receipts arising from the leasing of Port Nelson property.

Administration and Other Expenses

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

Financing Costs

Finance revenue represents interest revenue received. This is recognised on a time proportion basis using the effective interest method.

Finance costs are recognised as an expense when incurred. Financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, applying a capitalisation rate of 3.75%, are added to the cost of those assets until such a time as the assets are substantially ready for their intended use.

Taxation

The income tax expense for the financial year is the tax payable on the current financial year's 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 and for unused tax losses (if any).

Deferred tax assets and liabilities are recognised for temporary differences at the rate expected to apply when the assets are recovered or liabilities are settled. The tax rate is applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

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, except land, buildings, wharves and infrastructural assets are stated at valuation taken over from the Nelson Harbour Board on 1 October 1988 and subsequent additions at cost. Land, buildings and wharves are stated at fair value. Cost incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefit or service potential associated with the item will flow to Port Nelson and the cost of the item can be reliably measured. Dredging is not amortised. The cost of maintaining the dredged depth is expensed.

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	4 to 51 years
Infrastructural Assets	10 to 51 years
Wharves and Berths	3 to 76 years
Buildings	8 to 56 years
Intangible Assets	3 to 14 years

Valuation Basis

Port Nelson has previously used a range of valuation techniques to measure the fair value of Property, Plant and Equipment.

For the 2021 Financial Year Port Nelson moved to measuring all Property, Plant and Equipment as a single unit using the income-based approach.

Port Nelson believes that valuing the assets based on future cash flows (the income approach) is the most appropriate technique to use to assess fair value. In assessing the present value, the cash flows have been aggregated across all assets as they are, in effect interdependent and cannot meaningfully be separated into individual units. Therefore, a single valuation has been estimated.

The value is based upon cash flows and approximates the price that a willing buyer or seller would pay for the company's combined Property, Plant and Equipment assets. The Port's Property, Plant and Equipment are all categorised as Level 3 in the fair value hierarchy.

Intangible Assets

Intangible assets, comprised of software and licences, have finite useful lives and are measured at cost less accumulated amortisation and 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. Subsequent to initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses.

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

There are no material contractual commitments for the acquistion of intangible assets at balance date.

Investment Properties

Investment Property which is property held to earn rentals and capital appreciation is measured at its fair value at the reporting date. 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. Investment Properties are not depreciated.

Valuation Basis

Investment properties are revalued every year. Investment properties were valued on 30 June 2021 by Ian McKeage, Registered Valuer, FNZIV, FPINZ of Telfer Young. The valuers have recent experience in the location and category of the item being valued.

Fair Value Measurements

The valuation of Property, Plant and Equipment and Investment Property requires estimation and judgement. For Investment Property at each reporting date, the independent valuation reports are subject to internal review by the management team.

The review focuses on checking material movements and ensuring all additions and disposals are captured. A summary report on valuation movements is provided to the Board and full copies of the valuer's reports are available to Directors. For Property, Plant and Equipment that are measured using an income based model, utilising a discounted cashflow at each reporting date, the significant assumptions are considered by both management and the Board and sensitivity analysis is performed.

Valuations are categorised within a three tier fair value hierarchy table based upon the observability of valuation inputs.

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, as prices, or indirectly, derived from prices.

Level 3 inputs: Inputs for the asset or liability that are not based on observable market data, that is, unobservable inputs.

Financial Risk Management

Port Nelson's operations expose it to a variety of financial risks which it seeks to manage through the application of its Treasury Policy. This policy provides guidance to management on carrying out appropriate financial risk management activities including the use of derivative financial instruments to manage this risk. Port Nelson does not enter into speculative trades.

Interest rate risk

Port Nelson is exposed to interest rate risk on the cash flows arising from its variable rate borrowings. The Board does not consider there is any significant exposure to interest rate risk on its investments.

Port Nelson's interest rate exposures are managed in accordance with specific borrowing parameters outlined in the Treasury Policy which requires 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.

Port Nelson currently manages this risk by using Interest Rate Swaps (IRS) which swap the floating rate exposure on a notional amount of borrowings for a fixed rate.

Financial Derivatives

Port Nelson designates certain derivatives as hedging instruments in respect of interest rate risk in cash flow hedges. Such derivatives are held at fair value.

At the inception of the hedge relationship, Port Nelson documents the nature of the risk being hedged, the economic relationship between the hedged item, and the instrument for effectiveness testing along with its risk management objectives for undertaking various hedge transactions.

The hedged item creates an exposure to pay interest on the notional value, settled at intervals prescribed by the hedge agreement. The interest rate swap on the same notional value creates an equal and opposite interest receipt and a fixed interest payment, therefore creating an exact offset for this transaction resulting in a net fixed interest payable.

Assessment of hedge effectiveness is done at inception of the hedge, at each subsequent reporting date (30 June and 31 December) and upon a significant change in the circumstances affecting the hedge effectiveness requirements.

The effective portion of changes in the fair value of the derivative financial instruments that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to any ineffective element is recognised immediately in the profit or loss.

Credit Risk

Port Nelson is exposed to credit risk on its cash and cash equivalents from the possibility of counter-parties failing to perform their obligations. This risk is represented by the carrying value in the Statement of Financial Position. We consider this risk to be immaterial.

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, generally on a monthly basis. They are non-interest bearing and have payment terms of generally the 20th of the month of receipt of invoice but vary on a case-by-case basis between 7 to 45 days.

The Provision for Expected Credit Loss represents impairment losses on contracts with customers.

Port Nelson always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The allowance is estimated by reference to past default experience of the debtor, an analysis of the debtor's current financial position as well as forward looking information. Port Nelson writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

None of the trade receivables that have been written off are subject to enforcement activities.

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 monitor the currency risk exposure and will enter into 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.

Multi-Option Credit Facility

Port Nelson has financing arrangements with Westpac Banking Corporation totalling $100,000,000 for a multi-option credit facility made up of a three facility agreement.

The first is for a funding facility of $40,000,000 commencing July 2021, expiring July 2022. The second is for a funding facility of $40,000,000 commencing July 2021, expiring July 2023. The third is for a funding facility of $20,000,000 commencing July 2021, expiring July 2024.

Security for the multi-option credit facility is by a first and exclusive debenture charge over the assets and undertakings of Port Nelson. Port Nelson classifies its borrowings as non-current liabilities.

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.

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.

Fair Value of Financial Instruments

Port Nelson considers that the carrying values of financial assets and financial liabilities recorded in these financial statements approximate their fair values.

The financial instruments carried at fair value are the Interest Rate Swaps which are fair valued at a total liability of $0.080m (2020: liability of $4.395m) at balance date.

These are considered a Level 2 valuation in the Fair Value Hierarchy. The valuation of Interest Rate Swaps is derived from the New Zealand Financial Markets Association closing rates on the revaluation date. From these rates the mark to market is calculated to reflect the net present value of the remaining fixed and floating cash flow obligations.

Provisions

Employee Entitlements

Provisions are recognised when a present obligation exists as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Provision is made in respect of Port Nelson's liability for annual leave, long service leave and retirement gratuities. Annual leave and long service leave have been calculated on an actual entitlement basis at current rates of pay and retirement gratuities 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 23 February 2012. Port Nelson has quantified the costs of its obligation as at 30 June 2021.

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.

Noise-affected properties are separated into three stages based on the level of port noise received.

For properties in Stage One, those properties that are exposed to night time Ldn (day/night average sound level) from port generated noise of 65 dBa or more, Port Nelson is required to make offers to either fully fund noise mitigation work or to purchase the properties. There are 15 properties designated Stage One properties, and at 30 June 2021, seven properties have had this obligation met (2020 – seven properties). During the 2021 financial year, the contour lines were redesignated by the Council, which saw an additional three properties move into Stage One, and two properties moved from Stage One to Stage Two.

For properties in Stage Two, those properties that are exposed to night time Ldn from port generated noise of between 60 to 64.9 dBa area, Port Nelson has offered to contribute up to 50% of noise mitigation costs.

For properties in Stage Three, those properties that are exposed to night time Ldn from port generated noise of between 55 to 59.9 dBa, property owners can request Port Nelson to provide technical advice and a contribution of up to 50% of noise mitigation costs. There is no obligation on Port Nelson to make offers for the purchase of either Stage Two or Stage Three properties.

PORT NELSON

Port Nelson
Nelson 7010, New Zealand