



Northland Port
Corporation (NZ) Ltd

Interim Report

For the Six Months ended 31 December 2008

Chairman's Report

Trading

Tax Paid Surplus for the six months to December 31 2008 was \$1.794 million compared with the corresponding period last year of \$8.827 million (which included the one off surplus of \$7.6 million from the sale of the Company's shares in Marsden Cove Limited).

Dividend

A dividend of 2.5 cents per share (3 cents for the corresponding period last year) will be paid on 6 March 2009. The dividend will not be imputed as the Company has insufficient imputation credits.

Associate Companies and Joint Ventures

Northport Limited

Northland Port Corporation's main operating investment is now the 50% interest in Northport, so the bulk of operating earnings are attributable to Northport. It is pleasing to note Northport's continuing growth in profitability with the six month period under review showing above budget earnings. Log volumes were slightly down on budget, however with the exception of fertiliser, volumes through the port were ahead of the corresponding period. Woodchip, sawn timber, coal, cement, triboard and the new trade in palm kernel all saw good increases.

Northland Stevedoring Services and North Port Coolstores

Northland Stevedoring Services recorded a very good first half while North Port Coolstores benefited through high demand for dairy product freezer space as international demand slowed for Fonterra product.

Strategic Update

The following is an extract from my address to shareholders at the Annual General Meeting held on 31 October last year.

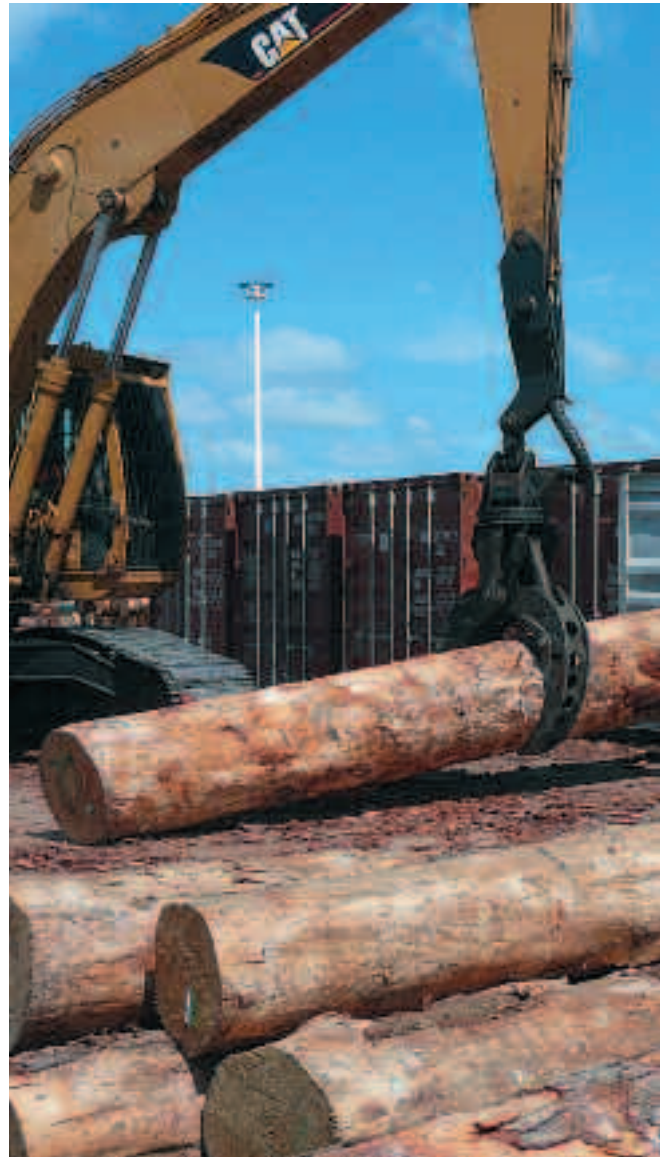
“ Directors are asking “where to now”?

Northport is an above average performer in the port industry but future maintainable returns of around 7% on equity are far from exciting. Returns from the land bank are minimal and there is little prospect of meaningful improvement in the medium term.

Strategic Significance

It has been estimated the establishment of the port gives rise to an economic contribution of in excess of \$50 million per annum to the region (this excludes the \$1.6 million sustainable dividend to the Northland Regional Council).

There is undoubted value to the region in having available to it the use of a modern and efficient port with room to accommodate close by (on suitably zoned land) port related industry and warehousing.



NPC's Future Prospects

NPC's future revenue will be derived from dividends from Northport, North Port Coolstores and Northland Stevedores and rent from leased land. We forecast this to be little more than \$3 million per annum. Clearly this is inadequate, given net equity of \$155 million and a market capitalisation of \$125 million.

Recently in an attempt to separate the “port operations play” from the “property play”, Directors suggested the creation of two listed companies to isolate the two very different asset classes making up your Company. Advice received, envisaged the management and development of the land bank by a specialist would enhance value in the medium term and among other things, would allow the market to efficiently crystallise the value of both parts of the business. The major shareholder, Northland Regional Council, would not support this proposition at this time.

Directors are now exploring other avenues to improve returns to shareholders, but at the same time, trying to accommodate the major shareholder's aspirations which may be different from those of the minority shareholders.

Matters now being considered include:

- gauging the benefits of maintaining stock exchange listing.*
- ascertaining whether or not ownership of all the land bank is in the best interest of shareholders (given containers can be stacked seven high, the land is zoned for industrial use and the prospects of a manufacturing boom seem a little distant these days).*
- testing whether or not continued ownership of the 50% interest in Northport is warranted given there may be new opportunities for the establishment of other important infrastructure in the region from the capital released.*

It is perhaps worth mentioning here, the sale or liquidation of your Company could realise \$150 million giving the Northland Regional Council \$75 million for further investment in the north, or just invest it in government stock to earn about \$5.5 million which is more than three times the return likely from retaining the status quo.

We should bear in mind that no one can tow the port and the abutting land away no matter who the owner is. We will keep shareholders up to date with any developments. ”

(It should be noted the values quoted were as at October 2008 and these may have deteriorated in the interim).

Update on developments

The Board has been giving considerable thought to the way forward for your Company given the issues it faces which were outlined at the Annual Meeting. Three particular alternatives have been considered by your Directors:

Status Quo

To retain the Status Quo (doing nothing) is not an option which is in the best interests of all shareholders. Clearly the unacceptably low return on equity is the result of far too much capital tied up in the "Land Bank". The size of the land bank is in excess of future needs for port purposes.

Sale of the Company

The benefits and opportunities for the region which would arise from the sale of the Company are alluded to in the excerpt from my AGM address (recalled above). These can be experienced without "losing the port" and its growing contribution to the Northland economy (in excess of \$50m per annum). In the event of a sale to another New Zealand port company, a healthy first step towards port rationalisation would be achieved.

However to date, NPC Directors have respected the major shareholder's "strategic asset ownership philosophy" and its assurance that "regional constituents" would violently oppose a change in ownership in exchange for the aforementioned benefits. Your Directors therefore, have seen little merit in pursuing this option.

Delisting and Minority Buyout by way of a Scheme of Arrangement

Directors see little need to continue with the listing of NPC shares on the NZX. This conclusion follows from the compliance and other costs from retaining a listing which are estimated to be up to \$500,000 per annum, the fact that there is minimal turnover and that the Company has little likelihood of the need to access further capital in the future. Delisting would be achieved by the Company buying and cancelling the minority shareholdings at fair market valuation. In the event that all shares are acquired in the buyback, other than those held by Northland Regional Council, the Company would then be owned 100% by Northland Regional Council. In the event that the shares acquired were all shares apart from those owned by Northland Regional Council and Ports of Auckland, the Company would then be controlled by Northland Regional Council as to 72% and Ports of Auckland as to 28%. If either of those outcomes eventuated, the "strategic control" issues of Northland Regional Council would be resolved and a pathway to some form of port rationalisation may be cleared. This option would need to be supported by Northland Regional Council if it is to progress.

Share Buyback

At the October AGM, Directors advised of the intention for the Company to buy back up to approximately 5% of the issued capital at market prices. Until recently, no action had been taken on the buyback in view of the consideration which was being given by the Board to the alternatives for the future which are discussed above. Since none of those alternatives is able to be progressed in the immediate future, the Board resolved to progress with the buyback and this process commenced on 18 February.

In the meantime, shareholders have our assurance we will continue to pursue all avenues to preserve and enhance shareholder value for all shareholders.



Mike Daniel
Chairman

Consolidated Income Statement

For the Six Months Ended 31 December 2008

YEAR ENDED		SIX MONTHS ENDED		
30-Jun-08		31-Dec-08	31-Dec-07	
\$		\$	\$	
	Revenue			
490,519	Operating Revenue	199,917	253,053	
630,215	Share of Joint Venture Revenues	458,446	357,459	
386,080	Rents & Leases	105,700	240,757	
374,585	Imputed Interest Income	170,869	106,385	
813,502	Other Interest Income	236,783	426,924	
1,939,012	Share of Associate Companies' Net Surplus	1,651,317	936,315	
74,761	Other	27,254	9,486	
<u>4,708,674</u>	Total Revenue	<u>2,850,286</u>	<u>2,330,379</u>	
	Expenditure			
693,009	Operational Expenses	379,148	359,566	
448,722	Land Rates & Lease Expenses	251,607	246,619	
756,613	Administrative Expenses	388,008	419,956	
55,874	Finance Costs	16,625	33,171	
77,971	Depreciation Expense	32,309	40,268	
<u>2,032,189</u>	Total Expenditure	<u>1,067,697</u>	<u>1,099,580</u>	
<u>2,676,485</u>	Trading Surplus	<u>1,782,590</u>	<u>1,230,800</u>	
35,650	Gain on Sale of Property, Plant & Equipment	4,089	35,990	
7,651,739	Gain on Sale of Investment in Associate Company	—	7,651,739	
(148,726)	Fair Value Movements	—	7,949	
<u>10,215,148</u>	Operating Surplus Before Taxation	<u>1,786,679</u>	<u>8,926,478</u>	
166,030	Taxation Expense (Credit)	(7,772)	99,417	
<u>\$10,049,118</u>	NET SURPLUS	<u>\$1,794,451</u>	<u>\$8,827,061</u>	

Consolidated Statement of Recognised Income and Expense

For the Six Months Ended 31 December 2008

YEAR ENDED		SIX MONTHS ENDED		
30-Jun-08		31-Dec-08	31-Dec-07	
\$		\$	\$	
(90,606)	Net Cash Flow Hedging Movement taken to Equity	(904,765)	109,143	
(53,518)	Revaluation of Land Holdings	—	—	
(144,124)	Net Income recognised directly in Equity	(904,765)	109,143	
<u>10,049,118</u>	Net Surplus	<u>1,794,451</u>	<u>8,827,061</u>	
<u>\$9,904,994</u>	TOTAL RECOGNISED INCOME & EXPENSE	<u>\$889,686</u>	<u>\$8,936,204</u>	

The accompanying notes form an integral part of these Interim Financial Statements

Consolidated Balance Sheet

As at 31 December 2008

AS AT		AS AT	
30-Jun-08		31-Dec-08	31-Dec-07
\$		\$	\$
	Equity		
15,461,204	Share Capital	15,461,204	15,461,204
36,426,881	Retained Earnings	30,830,689	36,509,054
102,964,118	Asset Revaluation Reserve	102,964,118	103,017,636
270,479	Hedging Reserve	(634,286)	470,228
<u>155,122,682</u>		<u>148,621,725</u>	<u>155,458,122</u>
	Current Liabilities		
—	Bank Overdraft	—	58,425
235,254	Payables	284,589	142,755
118,610	Provisions	24,599	192,955
250,000	Bank Debt	—	—
<u>603,864</u>		<u>309,188</u>	<u>394,135</u>
<u>\$155,726,546</u>		<u>\$148,930,913</u>	<u>\$155,852,257</u>
	Current Assets		
617,815	Cash & Deposits	7,006,791	779,307
696,646	Receivables & Prepayments	189,776	312,642
152,301	Taxation Refundable	126,193	37,747
775,097	Other Investments	—	—
12,750,526	Loans & Receivables	646,396	7,357,327
<u>14,992,385</u>		<u>7,969,156</u>	<u>8,487,023</u>
	Non-Current Assets		
96,567,590	Property, Plant & Equipment	96,664,968	96,320,289
43,541,982	Investments in Associate Companies	43,630,534	43,535,049
470,492	Other Investments	471,570	1,402,264
—	Loans & Receivables	—	5,877,219
74,789	Tax Losses Carried Forward	119,212	151,175
79,308	Deferred Taxation Asset	75,473	79,238
<u>140,734,161</u>		<u>140,961,757</u>	<u>147,365,234</u>
<u>\$155,726,546</u>		<u>\$148,930,913</u>	<u>\$155,852,257</u>

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Consolidated Cash Flow Statement

For the Six Months Ended 31 December 2008

YEAR ENDED		SIX MONTHS ENDED	
30-Jun-08		31-Dec-08	31-Dec-07
\$		\$	\$
Cash Flows from Operating Activities			
Cash was provided from:			
1,430,574	Cash from Customers	913,014	750,786
2,328,742	Dividends Received	658,284	1,532,726
440,461	Interest Received	609,824	69,428
125,700	Interest Rate Swaps Closed Out	–	125,700
<u>4,325,477</u>		<u>2,181,122</u>	<u>2,478,640</u>
Cash was applied to:			
(1,886,549)	Cash paid to Suppliers & Employees	(925,006)	(1,071,773)
(110,230)	Interest Paid	(10,978)	(88,802)
(113,975)	Income Tax Paid	(6,709)	(9,126)
<u>(2,110,754)</u>		<u>(942,693)</u>	<u>(1,169,701)</u>
<u>2,214,723</u>	Net Cash Inflow from Operating Activities	<u>1,238,429</u>	<u>1,308,939</u>
Cash Flows from Investing Activities			
Cash was provided from:			
85,000	Sale of Property, Plant & Equipment	6,815	85,000
–	Deposit Received	–	50,000
10,000,000	Sale of Associate Company Stakeholding	–	4,000,000
114,630	Sale of Other Investments	677,285	138,448
2,099,950	Advances Repaid	12,275,000	1,699,950
<u>12,299,580</u>		<u>12,959,100</u>	<u>5,973,398</u>
Cash was applied to:			
(933,175)	Purchase of Property, Plant & Equipment	(167,910)	(628,554)
(6,000,000)	Advances Provided	–	–
–	Other	–	(23,819)
<u>(6,933,175)</u>		<u>(167,910)</u>	<u>(652,373)</u>
<u>5,366,405</u>	Net Cash Inflow from Investing Activities	<u>12,791,190</u>	<u>5,321,025</u>
Cash Flows from Financing Activities			
Cash was applied to:			
(6,250,000)	ASB Bank Facility	(250,000)	(6,500,000)
(8,260,130)	Dividends Paid	(7,390,643)	(6,955,899)
<u>(14,510,130)</u>	Net Cash Outflow from Financing Activities	<u>(7,640,643)</u>	<u>(13,455,899)</u>
(6,929,002)	Net Decrease In Cash Held	6,388,976	(6,825,935)
7,546,817	Add Opening Cash Balance	617,815	7,546,817
<u>\$617,815</u>	Closing Cash Balance	<u>\$7,006,791</u>	<u>\$720,882</u>

The accompanying notes form an integral part of these Interim Financial Statements

Consolidated Operating Cash Flow Reconciliation

For the Six Months Ended 31 December 2008

YEAR ENDED		SIX MONTHS ENDED	
30-Jun-08		31-Dec-08	31-Dec-07
\$		\$	\$
10,049,118	Net Surplus	1,794,451	8,827,061
	Add (Subtract) Non-Cash Items:		
77,971	Depreciation	32,309	40,268
(374,585)	Imputed Interest Income	(170,869)	(106,385)
—	Capitalised Interest Income	—	(352,219)
(32,357)	Deferred Taxation	3,835	(32,286)
(35,650)	Gain on Sale of Property, Plant & Equipment	(4,089)	(35,990)
(7,651,739)	Gain on Sale of Investment in Associate Company	—	(7,651,739)
148,726	Fair Value Movements	—	(7,949)
389,473	Share of Associate Companies' Retained Surplus	(993,317)	596,154
(2,192)	Other Non-Cash Items	(1,078)	(2,192)
<u>(7,480,352)</u>		<u>(1,133,209)</u>	<u>(7,552,338)</u>
	Add (Subtract) Working Capital Items:		
(500,455)	Movement in Receivables & Prepayments	506,870	(116,451)
(121,216)	Movement in Taxation Refundable	26,108	(6,662)
(40,965)	Movement in Payables	49,335	(129,790)
59,325	Movement in Provisions (current portion)	(94,011)	129,996
<u>(603,311)</u>		<u>488,302</u>	<u>(122,907)</u>
15,753	Non-Operating items included in working capital movements above	133,308	(4)
	Add (Subtract) Other Items:		
125,700	Interest Rate Swaps Closed Out	—	125,700
(97,812)	Movement in Provisions (non-current portion)	—	(97,812)
205,627	Movement in Tax Losses Carried Forward	(44,423)	129,240
<u>233,515</u>		<u>(44,423)</u>	<u>157,128</u>
<u>\$2,214,723</u>	Net Cash Flow from Operating Activities	<u>\$1,238,429</u>	<u>1,308,939</u>

The accompanying notes form an integral part of these Interim Financial Statements

Notes to the Consolidated Financial Statements

For the Six Months Ended 31 December 2008

Note 1

SEGMENTAL REPORTING

During the reporting period, the principal business segments of the Group were Port Related Activities and Other Activities.

Included in the assets of Other Activities are the Group's significant land holdings in the Marsden Point area.

All operations are undertaken in New Zealand. The undernoted information is provided in respect of the major segments for the six month period to 31 December 2008. There were no inter segment transactions.

	PORT RELATED ACTIVITIES		OTHER ACTIVITIES		TOTAL	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Revenue						
Operating Revenue	–	–	200	253	200	253
Share of Joint Venture Revenues	458	357	–	–	458	357
Rents & Leases	–	–	106	241	106	241
Imputed Interest Income	–	–	171	106	171	106
Other Interest Income	4	6	233	421	237	427
Share of Associate Companies' Net Surplus (Deficit) #	1,459	1,078	192	(142)	1,651	936
Other	–	–	27	10	27	10
Net Segmental Revenue	1,921	1,441	929	889	2,850	2,330
Expenditure						
Cash Expenses	342	310	676	716	1,018	1,026
Finance Costs	–	–	17	33	17	33
Depreciation Expense	13	17	19	23	32	40
Net Segmental Expenditure	355	327	712	772	1,067	1,099
Trading Surplus	1,566	1,114	217	117	1,783	1,231
Gain on Sale of Assets	4	–	–	36	4	36
Gain on Sale of Associate Company Interest	–	–	–	7,652	–	7,652
Fair Value Movements	–	–	–	8	–	8
Operating Surplus Before Taxation	1,570	1,114	217	7,813	1,787	8,927
# inclusive of discontinued activities as shown below.						
Assets Employed						
Investment in Associate Companies	42,673	42,740	958	795	43,631	43,535
Property, Plant & Equipment	96	127	96,569	96,193	96,665	96,320
Other Assets	1,062	2,162	7,573	13,835	8,635	15,997
	43,831	45,029	105,100	110,823	148,931	155,852
Liabilities	93	251	216	143	309	394
Property, Plant & Equipment Additions	–	–	132	596	132	596
Composition of Operating Surplus Before Taxation						
Continuing Activities	1,570	1,114	217	8,132	1,787	9,246
# Discontinued Activities (refer Note 3)	–	–	–	(319)	–	(319)
	1,570	1,114	217	7,813	1,787	8,927

Notes to the Consolidated Financial Statements

For the Six Months Ended 31 December 2008

Note 2

IMPUTED INTEREST INCOME

YEAR ENDED		SIX MONTHS ENDED	
30-Jun-08		31-Dec-08	31-Dec-07
\$		\$	\$
374,585	Advance - Hopper Developments Ltd	170,869	106,385
<u>374,585</u>		<u>170,869</u>	<u>106,385</u>

Note 3

SHARE OF ASSOCIATE COMPANIES' NET SURPLUS

	Northport Ltd (50% interest)		
2,307,533	Net Surplus before Taxation	1,876,946	1,302,898
(516,403)	Less Taxation	(472,463)	(280,714)
<u>1,791,130</u>		<u>1,404,483</u>	<u>1,022,184</u>
118,984	Current period write back re. previous inter entity asset sales	54,084	55,898
<u>1,910,114</u>		<u>1,458,567</u>	<u>1,078,082</u>
	North Port Coolstores (1989) Ltd (50% interest)		
516,302	Net Surplus before Taxation	275,358	263,978
(168,772)	Less Taxation	(82,608)	(87,113)
<u>347,530</u>		<u>192,750</u>	<u>176,865</u>
	Marsden Cove Ltd (previous 50% interest #)		
(463,856)	Net Deficit before Taxation (3 months to 30 September 2007)	—	(463,856)
153,073	Plus Taxation Credit	—	153,073
<u>(310,783)</u>		<u>—</u>	<u>(310,783)</u>
	Marsden Cove Marinas Ltd (previous 50% interest #)		
(11,715)	Net Deficit before Taxation (3 months to 30 September 2007)	—	(11,715)
3,866	Plus Taxation Credit	—	3,866
<u>(7,849)</u>		<u>—</u>	<u>(7,849)</u>
<u>1,939,012</u>		<u>1,651,317</u>	<u>936,315</u>

The Group's interest in these entities was sold effective 30 September 2007.

Notes to the Consolidated Financial Statements

For the Six Months Ended 31 December 2008

Note 4

INVESTMENTS IN ASSOCIATE COMPANIES

AS AT		AS AT	
30-Jun-08		31-Dec-08	31-Dec-07
\$		\$	\$
	Northport Ltd (50% interest)		
20,000,000	Shares Subscribed For	20,000,000	20,000,000
7,339,500	Share of Accumulated Surplus	8,085,983	7,166,571
270,479	Share of Hedging Reserve	(634,286)	470,228
17,446,065	Land Revaluation not recognised by Associate	17,446,065	17,446,065
(2,279,340)	Elimination re inter-entity asset sales	(2,225,256)	(2,342,428)
<u>42,776,704</u>	Carrying Value	<u>42,672,506</u>	<u>42,740,436</u>
	North Port Coolstores (1989) Ltd (50% interest)		
250,000	Shares Subscribed For	250,000	250,000
515,178	Share of Accumulated Surplus	707,928	544,513
<u>765,178</u>	Carrying Value	<u>957,928</u>	<u>794,513</u>
	Northland Stevedoring Services Ltd (50% interest)		
50	Shares Subscribed For	50	50
—	Share of Accumulated Surplus	—	—
<u>50</u>	Carrying Value	<u>50</u>	<u>50</u>
	Marsden Point Stevedoring Services Ltd (50% interest)		
50	Shares Subscribed For	50	50
—	Share of Accumulated Surplus	—	—
<u>50</u>	Carrying Value	<u>50</u>	<u>50</u>
<u>43,541,982</u>	Total Investment in Associate Companies	<u>43,630,534</u>	<u>43,535,049</u>

Directory

Registered Office

Northland Port Corporation (NZ) Ltd
113 Bank Street
P O Box 848
Whangarei 0140
New Zealand
Telephone 09 438 1279
Facsimile 09 438 7067
www.northlandportcorp.co.nz

Share Registrar

Computershare Investor Services Ltd
Private Bag 92119
Auckland 1030
New Zealand

Auditors

Controller and Auditor General
Under contract by Ernst & Young

Bankers

ASB Bank
Commonwealth Bank of Australia

Solicitors

Jones Young
Webb Ross

Directors

Mike Daniel, Chairman
Geoff Vazey, Deputy Chairman
Michael Gross
Rod McKay
Stan Semenov
Ian Walker

Management

Jim Smillie, General Manager
Telephone 09 438 1278 (Direct)

Associate Companies

Northland Stevedoring Services Ltd
P O Box 225
Ruakaka 0151
New Zealand
Telephone 09 433 0420
Facsimile 09 459 1830

North Port Coolstores (1989) Ltd
P O Box 10131
Te Mai
Whangarei 0143
New Zealand
Telephone 09 438 2683
Facsimile 09 438 6812

Northport Ltd
P O Box 44
Ruakaka 0151
New Zealand
Telephone 09 432 5010
Facsimile 09 432 8749
www.northport.co.nz

Subsidiary Company

NPC Corporate Services Ltd
P O Box 848
Whangarei 0140
New Zealand
Telephone 09 438 1279
Facsimile 09 438 7067

Northland Port Corporation (NZ) Ltd

113 Bank Street, P O Box 848, Whangarei 0140, New Zealand.

Telephone 09 438 1279 Facsimile 09 438 7067

www.northlandportcorp.co.nz