PORT OTAGO LIMITED

www.portotago.co.nz

Annual Report 2010

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OVERVIEW OF GROUP RESULTS

	2010 $million	2009 $million
Operating revenue	71.7	67.2
Operating profit before income tax	17.1	15.0
Profit for the period	14.3*	14.6
Total assets	407.9	408.9
Shareholders equity	272.5	270.2
Equity ratio	67%	66%
Net asset backing per share	$13.62	$13.51

Trade

	2010	2009
Container throughput (TEU)	219,000	218,000
Conventional cargo volume (000 tonnes)	1,105	924
Number of vessel arrivals	502	589

*2010 Profit excluding non-cash Deferred Tax Adjustment

FIVE YEAR SUMMARY

Trade analysis	2010	2009	2008	2007	2006
Number of ships	502	589	551	617	529
Cargo throughput (000's tonnes)	3,284	3,034	3,052	2,974	2,798

Financial comparisons	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
Revenue	70,295	67,177	62,564	59,373	50,429
Surplus from operations (EBIT)					
Port operations	13,625	12,994	14,612	13,614	11,709
Investment property	10,468	7,617	7,408	6,599	5,613
Total group	24,093	20,611	22,020	20,213	17,322
Included in Surplus from operations:					
Unusual revenues/(expenses)	650	(960)	2,447	84	344
Surplus before tax (before revaluations)	15,054	13,469	14,154	16,666	14,026
Profit after tax (before revaluations)					
Port operations	4,989^	5,699	6,063	9,099	6,252
Investment property	6,132^	3,464	3,810	5,298	3,134
Total group	11,121^	9,163	9,873	14,397	9,386
Unrealised net change in value of investment property	3,198	5,430	17,915	24,884	31,730
Profit after unrealised revaluations	14,319^	14,593	27,788	39,281	41,116
Dividends for financial year	7,000*	6,900*	9,400*	6,900*	6,750*
Shareholders equity	272,498	270,188	266,315	251,923	212,904
Total assets					
Port operations	198,284	202,177	203,090	206,034	186,382
Investment property	209,638	206,723	198,409	189,907	166,704
Total group	407,922	408,900	401,499	395,941	353,086
Shareholders equity	67%	66%	66%	64%	60%
Net asset backing per share	$13.62	$13.51	$13.32	$12.60	$10.65
Earnings per share (cents)	38.6	73.0	138.9	196.4	205.6
Dividends per share (cents)	35.0*	34.5*	47.0*	34.5*	33.8*
Return on equity**					
before unrealised revaluations	4.1%	3.4%	3.8%	6.2%	4.7%
after unrealised revaluations	5.3%	5.4%	10.7%	16.9%	20.8%
EBIT return on assets					
Port operations	6.9%	6.6%	7.1%	6.7%	6.8%
Investment property	5.0%	3.7%	3.8%	3.7%	4.1%
Total group	5.9%	5.1%	5.5%	5.4%	5.7%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 25

** Profit, excluding non-cash Deferred Tax Adjustment, divided by average shareholders equity.

^ 2010 Profit excluding non-cash Deferred Tax Adjustment.

2010 CHAIRMAN'S REVIEW

Financial results

The Port Otago Group is pleased to report an operating profit before tax of $17.1 million which was an increase of 14% on the prior year. The Group comprising port activities plus the investment property business operated by Chalmers Properties Limited, performed strongly during the year ended 30th June 2010. The Group profit before tax of $18.2 million (last year: $18.9 million) included a $1.4 million gain on disposal of property (last year: nil) and $3.2 million in investment property revaluations (last year: $5.4 million).

Increases in container volume, conventional cargo tonnage and investment property rentals combined to increase Group earnings before interest, tax, depreciation and amortisation (EBITDA) by 6% to $30.3 million.

Before including a one-off deferred tax adjustment of $6.6 million, the Group tax paid profit for the year of $14.3 million was similar to last year's figure of $14.6 million. The one-off non-cash deferred tax adjustment resulted from changes to depreciation on buildings announced in the Budget in June 2010.

Unusual expenditure included in the Group profit before tax comprised $0.4 million to investigate a merger of port operations with Lyttelton Port Company and a $0.2 million subvention payment to the Otago Regional Council offset by a reduction in income tax expense.

A summary of the year's result follows:

(years ended 30 June)	2010 $m	2009 $m	Change
EBITDA*	30.3	28.7	+6%
Gain on disposal of property	1.4	-	
Depreciation and amortisation	(7.0)	(7.1)	
Borrowing costs	(7.6)	(6.6)	
Operating profit before tax	17.1	15.0	+14%
Unusual items:			
Merger investigation costs	(0.4)	(0.7)	
Subvention payment	(0.2)	(0.3)	
Unrealised items:			
Unrealised revaluation of investment property	3.2	5.4	
Unrealised change in value of interest rate swaps	(1.5)	(0.5)	
Profit before tax	18.2	18.9	-4%
Income tax expense	(3.9)	(4.3)	
Deferred tax adjustment	(6.6)	-	
Profit for the year	7.7	14.6	-47%

**EBITDA = Earnings before interest, currency exchange losses or gains, tax, depreciation and amortisation.*

Port Otago has maintained its strong financial position, ending the year with a consolidated equity ratio of 67%, which is an improvement on the ratio of 66% at the end of the previous year.

Dividend

Dividends paid or declared for the year ended 30 June 2010 totalled $7.0 million. This compares with last year's total of $6.9 million. The current year's fully imputed dividends represent 65% of the trading surplus after tax.

2010 CHAIRMAN'S REVIEW continued

Port operations

Financial

The port recorded operating earnings before interest and tax (EBIT) of $14.3 million which was 2% up on the previous year. Revenue from port operations was 3% higher. Expenses included $1.7 million of restructuring costs compared to $0.2 million in the comparative period.

Trading activities

Container throughput of 219,000 TEU (twenty foot equivalent units) was 1% up on last year. This gain was comprised of a 7% increase in containerised exports and an 8% increase in containerised imports. Tranship TEU containers reduced by 12%.

While cargo volumes were higher than in the 2009 year, vessel arrivals were 15% lower with 502 vessel calls. This was due to a reduction in both container vessel and cruise ship calls, partially offset by an increase in forestry vessels.

The result for the year under review is particularly pleasing because of the volatile shipping backdrop against which it was achieved. At the beginning of the financial year, the Japan-Korea service withdrew its fortnightly call from Port Chalmers, and soon after, Fonterra announced major changes to the way its product would be exported. These decisions resulted in a considerable volume of cargo from New Plymouth and Timaru that had been previously transhipped over Port Chalmers being directed to other ports. The impact of these changes was expected to significantly reduce the TEU volume handled by Port Otago for the remainder of the financial year. In reality, Port Otago's cargo volume was more resilient than expected and, while there was a decrease in export tranships through the port, there was a commensurate increase in direct exports and import tranships that more than off-set the losses experienced through shipping changes.

Conventional cargo also enjoyed a surge in volume, with the port enjoying its second highest annual conventional tonnage on record. This was driven by a substantial increase in log exports, with five companies regularly exporting out of both Port Chalmers and Dunedin. Port Otago has developed additional log storage space at Port Chalmers and at its Leith Yard in Dunedin, giving exporters the opportunity to boost annual volumes by 50%. The volume of log exports is expected to remain relatively strong in the coming year and will be boosted by additional conventional cargo associated with projected wind farm developments in Otago.

Planning has continued throughout the year in anticipation of using the Dunedin port as a base for oil exploration companies operating in the Great South and Canterbury Basins. This is a long-term project that has been undertaken in partnership with the Dunedin Engineering Cluster and the Dunedin City Council. Dunedin has clearly demonstrated to key participants in the oil industry that it is capable of providing excellent support infrastructure should oil be discovered off the East Coast of the South Island.

Infrastructure upgrade

There were two main projects undertaken for the year. The first being the delivery of two new-generation straddle carriers with a further two being received in August 2010. These machines are classified as 4-over-3 which means they can stack containers 4-high and can move individual containers over an existing 3-high stack. Improving the capability of the port's fleet of container handling equipment is part of a long term plan to increase container capacity at the Port Chalmers terminal.

The second major project was an upgrade to the straddle carrier garage facility in order to accommodate the new straddle carriers as well as to improve the work conditions for staff who service the fleet.

Project Next Generation

The resource consents have been lodged for the work associated with the deepening of the channel to Port Chalmers to handle the next generation of container vessels. The resource consent hearing is expected to be held during March 2011.

2010 CHAIRMAN'S REVIEW continued

Health and safety

The port business recorded 5 lost time accidents for the year, compared with 3 in each of 2008 and 2009. The lost time injury (LTI) frequency rate increased slightly to 0.9 per 100,000 hours. While this is an increase Port Otago continues to achieve one of the best health and safety performances within the port industry.

The Company is committed to a Zero Harm strategy and as part of this strategy is participating in the Business Leaders' Health and Safety Forum, with several other New Zealand ports.

Staff

The Board acknowledges the efforts of staff and management for their ongoing commitment to delivering superior standards of customer service. This commitment together with improving levels of productivity continues to be a key factor in the port's success.

Environment and community

The Port Environment / Liaison Committee continued to meet regularly during the year, providing the Company a forum in which to meet with community representatives. Regular agenda items at these meetings include noise monitoring, landscaping, lighting and other matters of an environmental and community interest.

Excellent progress has been made during the year with the acoustic treatment programme. By the end of the 2010 calendar year it is expected that the acoustic treatment on all of the properties in the most affected areas will have been completed. A further $220,000 was spent on acoustic treatment in the year under review taking the total cost, since inception of the programme, to in excess of $1 million.

Discussions with Lyttelton Port Company Limited (LPC)

Negotiations with Lyttelton Port Company aimed at achieving an operational merger continued throughout the year. The Board are fully committed to the negotiations as it remains our view that long term operational benefits will accrue to our respective businesses and shareholders.

Chalmers Properties Limited (CPL)

CPL increased its operating EBITDA by 21% to $9.3 million reflecting a full-years rental income following the acquisition at Dalgety Drive in Wiri in 2009 and from rental growth within the existing property portfolio.

A net $3.2 million increase was achieved in the value of CPL's investment property portfolio. In light of the difficult economic conditions affecting the property sector this is an outstanding achievement. An increase in the value of the property portfolio in each of the last two years when most participants in the property sector are writing down the value of their portfolios reflects the underlying quality and strength of CPL's property portfolio.

An increase in the value of both the Dunedin ground lease portfolio and the Auckland investment properties was partially offset by a reduction in the value of the Hamilton land held in a joint venture. The Board is confident that the investment fundamentals for the Hamilton land are sound and that solid gains will be realised over time following the development phase.

During the year CPL achieved a $1.2 million gain from successfully selling 3.4 hectares of land from the Harrow Street portion of the Company's Dunedin ground lease portfolio. As part of the sales process CPL offered the land to the existing lessees. It is pleasing to report that each of the lessees or their tenants purchased the freehold titles.

At balance date 52%, by value, of the Group's investment property was located in Dunedin, 36% in Auckland and the remainder in Hamilton.

The Harbourside plan change continues to be subject to appeal. Following submissions from a number of appellants the Dunedin City Council, in April 2010, withdrew stage two of the plan change. This was disappointing as in our view the two stage approach provided a long term master plan for the ultimate redevelopment of the Harbourside area. Despite this setback CPL remains committed to working with the Dunedin City Council to ensure a successful outcome for stage one of the plan change.

2010 CHAIRMAN'S REVIEW continued

Directors

In December 2009 Dave Faulkner was appointed a Director. Dave retired as Managing Director of Fulton Hogan Ltd in December 2009 following which he was appointed a non-executive director of that Company.

Performance targets

A comparison of actual performance with the targets in the Statement of Corporate Intent is as follows:

	Actual	Target	Outcome
Trade			
Container throughput	219,000 TEU^{Ø}	215,000 TEU^{Ø}	Target achieved
^{Ø}TEU = twenty foot equivalent units			
Conventional cargo throughput	1.105 million tonnes	0.963 million tonnes	Target achieved
Number of vessel arrivals	502 vessels	531 vessels	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Health & Safety			
Frequency rate (lost time accidents per 100,000 work hours)	0.89	0.25	Target not achieved

Financial performance

	Port Otago Group Actual	Target	
EBIT* return on assets	5.9%	5.3%	Target achieved
Return on shareholders funds	5.3%	3.3%	Target achieved
Equity ratio	67%	67%	Target achieved
Debt servicing ratio (times)	2.9	2.5	Target achieved

*EBIT = Earnings before interest and taxation

To normalise the Return on shareholders funds, the non-cash deferred tax adjustment of $6.6 million has been excluded from the calculation. This adjustment was not expected at the time of establishing the target.

Outlook

We remain cautiously optimistic about the financial year ahead.

Predicted growth in exports from the Region, particularly dairy products and timber in combination with the up to date state of Port Otago's operating infrastructure and the strong commitment to high levels of customer service provide optimism for continued profitable growth.

In the current environment, optimism must however be tempered by the continuing uncertainty in global markets and the potential impact that this may have on the Region's exporters.

For and on behalf of the Board

John Gilks
Chairman

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2010

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Revenue					
Port operations		58,363	56,527	58,315	56,731
Investment property rental		11,157	9,843	-	-
Dividend income		775	807	4,675	3,907
Gain on disposal of property		1,428	40	144	48
Total revenue		**71,723**	**67,217**	**63,134**	**60,686**
Expenses	3				
Staff costs		(24,430)	(24,194)	(23,553)	(23,437)
Restructuring costs		(1,674)	(218)	(1,674)	(218)
Fuel and electricity		(2,960)	(2,916)	(2,891)	(2,873)
Purchased materials and services		(10,937)	(11,135)	(10,121)	(10,239)
Depreciation and amortisation		(7,006)	(7,142)	(6,837)	(7,019)
		(47,007)	(45,605)	(45,076)	(43,786)
Borrowing costs					
Interest income		267	358	22	117
Interest expense		(7,769)	(6,933)	(5,823)	(5,382)
Foreign exchange gain/(loss)		(101)	(1)	(101)	(1)
	4	(7,603)	(6,576)	(5,902)	(5,266)
Operating profit before income tax		**17,113**	**15,036**	**12,156**	**11,634**
Non-operating income and expenses					
Merger investigation costs		(353)	(722)	(353)	(722)
Subvention payment		(169)	(278)	(169)	(278)
Unrealised net change in the value of investment property	10	3,198	5,430	-	-
Unrealised net change in value of interest rate swaps		(1,537)	(567)	(1,082)	(275)
		1,139	3,863	(1,604)	(1,275)
Profit before income tax		**18,252**	**18,899**	**10,552**	**10,359**
Income tax expense	5a	(3,933)	(4,306)	(1,724)	(1,689)
Deferred tax adjustment	5b	(6,605)	-	(2,484)	-
Profit for the year		**7,714**	**14,593**	**6,344**	**8,670**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Profit for the year		7,714	14,593	6,344	8,670
Other comprehensive income					
Available-for-sale financial assets					
Unrealised increase/(decrease) in the value of share investments	18b	-	1,425	-	1,425
Cash flow hedges					
Unrealised movement in hedging interest rate swaps (net of tax)	18c	1,596	(5,245)	945	(3,937)
Total comprehensive income for the year		**9,310**	**10,773**	**7,289**	**6,158**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Equity at the beginning of the year		270,188	266,315	109,603	110,345
Total comprehensive income for the year		9,310	10,773	7,289	6,158
Distribution to owners					
Dividend paid	26	(7,000)	(6,900)	(7,000)	(6,900)
Equity at the end of the year		**272,498**	**270,188**	**109,892**	**109,603**

The accompanying notes form part of these financial statements

CONSOLIDATED BALANCE SHEET

As at 30 June 2010

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Current assets					
Cash and cash equivalents		515	253	-	5,315
Trade and other receivables	6	6,832	6,708	5,956	5,870
Secured advances	8	1,370	-	-	-
Inventories		557	485	557	485
Property held for sale	11	1,420	1,420	-	-
Finance leases	7	114	103	-	-
		10,808	8,969	6,513	11,670
Non-current assets					
Property, plant and equipment	9	154,403	153,327	154,259	153,015
Investment property	10	204,421	207,479	-	-
Property deposit		-	644	-	-
Shares in listed companies	19	36,713	36,713	36,713	36,713
Investment in subsidiaries		-	-	7,000	7,000
Finance leases	7	934	1,047	-	-
Intangible assets	12	643	721	548	721
		397,114	399,931	198,520	197,449
Total assets		**407,922**	**408,900**	**205,033**	**209,119**
Current liabilities					
Cash and cash equivalents		-	-	269	-
Trade and other payables	13	4,033	8,511	3,596	3,458
Borrowings (secured)	15	10,500	-	-	-
Employee entitlements	14	3,746	4,231	3,625	4,148
Derivative financial instruments	19	2,230	3,501	1,683	2,447
Income tax		1,603	1,345	610	825
		22,112	17,588	9,783	10,878
Non-current liabilities					
Borrowings (secured)	15	87,617	102,690	69,130	75,340
Employee entitlements	14	1,333	1,449	858	1,047
Derivative financial instruments	19	2,936	2,490	2,429	2,002
Deferred tax liabilities	5d	21,426	14,495	12,941	10,249
		113,312	121,124	85,358	88,638
Total liabilities		135,424	138,712	95,141	99,516
Equity					
Share capital	17	20,000	20,000	20,000	20,000
Reserves	18	252,498	250,188	89,892	89,603
Total equity		272,498	270,188	109,892	109,603
Total equity and liabilities		**407,922**	**408,900**	**205,033**	**209,119**

For and on behalf of the Board of Directors

J W Gilks
Chairman

E J Harvey
Director

The accompanying notes form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2010

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from port operations		58,378	57,148	58,279	57,264
Rental income		10,997	9,643	-	-
Dividend received		775	807	4,675	7,307
Interest received		267	49	22	117
Cash was disbursed to:					
Payments to employees and suppliers		(40,845)	(38,935)	(39,104)	(36,892)
Net GST received/(paid)		(82)	(27)	(102)	(52)
Interest paid		(7,648)	(6,663)	(5,870)	(5,403)
Income tax paid		(4,114)	(1,995)	(2,206)	(958)
Net cash flows from operating activities	20	**17,728**	**20,027**	**15,694**	**21,383**
Cash flows from investing activities					
Cash was provided from:					
Sale of property, plant and equipment		340	44	340	48
Sale of investment property		14,449	5,446	-	-
Repayment of lessee improvements		103	93	-	-
Cash was applied to:					
Purchase of property, plant and equipment		(8,362)	(5,246)	(8,359)	(5,135)
Advances received/(repaid)		(1,364)	812	(49)	109
Interest capitalised	4	(592)	(611)	-	-
Purchase of investment property		(10,407)	(7,146)	-	-
Improvements to investment property		(60)	(376)	-	-
Net cash flows from (to) investing activities		**(5,893)**	**(6,984)**	**(8,068)**	**(4,978)**
Cash flows from financing activities					
Cash was provided from:					
Proceeds from borrowings		48,447	75,760	28,040	75,760
Cash was applied to:					
Repayment of borrowings		(53,020)	(78,100)	(34,250)	(72,800)
Dividends paid	26	(7,000)	(11,900)	(7,000)	(11,900)
Net cash flows from (to) financing activities		**(11,573)**	**(14,240)**	**(13,210)**	**(8,940)**
Increase (decrease) in cash held		**262**	**(1,197)**	**(5,584)**	**7,465**
Cash held at beginning of period		253	1,450	5,315	(2,150)
Cash held at end of period		**515**	**253**	**(269)**	**5,315**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Port Otago Limited ("the Company") is a limited company incorporated and domiciled in New Zealand. The address of its registered office and principal place of business is disclosed in the directory of the annual report.

Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities in Dunedin. The principal activities of the Company, its subsidiaries and share of joint ventures ("the Group") are further described in note 21. The consolidated financial statements presented are those of Port Otago Limited, its subsidiaries and share of joint ventures ("the Group"). The ultimate parent of the Group is the Otago Regional Council.

These financial statements have been prepared to comply with the Companies Act 1993, the Financial Reporting Act 1993 and the Port Companies Act 1988. The financial statements of Port Otago Limited are for the year ended 30 June 2010. The financial statements were authorised for issue by the Board on 7 September 2010.

2. Summary of significant accounting policies

Basis of Preparation

These annual consolidated financial statements of Port Otago Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand.

Accounting policies applied in these annual financial statements comply with NZ IFRS interpretations issued and effective as at the time of preparing these statements (August 2010) as applicable to the Company as a profit-oriented entity. In complying with NZ IFRS the Company is simultaneously in compliance with International Financial Reporting Standards (IFRS).

Measurement base

These annual financial statements have been prepared under the historical cost convention except for the revaluation of certain assets and the recognition at fair value of certain financial instruments (including derivative instruments).

The following specific accounting policies have a significant effect on the measurement of results and financial position:

Basis of Consolidation

The consolidated financial statements include those of Port Otago Limited (the parent company) and its subsidiaries accounted for by line aggregation of assets, liabilities, revenues, expenses and cash flows that are recognised in the financial statements of all entities in the consolidated group. All inter-company transactions are eliminated on consolidation.

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Joint ventures

Joint ventures are joint arrangements with other parties in which the Company has several liability in respect of costs and joint and several in respect of liabilities. The Company's share of the assets, liabilities, revenues and expenses of joint ventures is incorporated into the Company's financial statements on a line-by-line basis.

Foreign currencies

(a) Functional presentation currency

The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency.

(b) Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at

NOTES TO THE FINANCIAL STATEMENTS continued

the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the balance date exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant, interest costs incurred during the period required to construct an item of property, plant and equipment are capitalised as part of the asset's total cost.

Property is classified as property, plant and equipment rather than investment property if the property is held for any of the following reasons:

- to meet the strategic purposes of the port, or
- to form part of buffer zones to port activity, or
- to assist the provision of port services, or
- to promote or encourage the import or export of goods through the port.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis so as to allocate the costs of assets over their estimated useful lives as follows:

Land	nil
Land improvements and buildings	10-50 years
Wharves, paving and dredging	15-70 years
Vessels and floating plant	5-30 years
Plant, equipment and vehicles	3-30 years

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Other intangible assets

The cost of acquiring an intangible asset is amortised from the date the asset is ready for use on a straight-line basis over the periods of expected benefit. For computer software the amortisation periods range from 1 to 5 years. Where the periods of expected benefit or recoverable values have diminished, due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

Impairment

Assets are reviewed at each balance sheet date for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indication of impairment exists then the asset's recoverable amount is estimated. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Leases – Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

NOTES TO THE FINANCIAL STATEMENTS continued

Leases – Operating leases
Leases under which the lessor substantially retains all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of stores, materials and maintenance spares are determined on a weighted average basis. The carrying amount of inventories includes appropriate allowances for obsolescence and deterioration.

Property held for sale
Property classified as held for sale is measured at:

- fair value, measured at the time of transfer, for items transferred from investment property, and
- fair value less estimated costs of disposal, measured at the time of transfer, for items transferred from property, plant and equipment.

Property is classified as held for sale if the carrying amount will be recovered through a sales transaction rather than through continuing use. Property is not depreciated or amortised while it is classified as held for sale.

Borrowing costs
Borrowing costs directly attributable to the acquisition and/or construction of plant and equipment and long term investment property development projects are capitalised as part of the cost of those assets. Other borrowing costs are expensed in the period in which they are incurred.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less. Bank overdrafts form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade and other receivables including advances

Trade and other receivables, including advances, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in the income statement.

(b) Investments

Share investments held by the Group are classified as available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Investments in listed companies are valued at selling price as at balance date.

When parent company accounts are presented as part of annual financial reporting, investments in subsidiaries and joint ventures are measured at cost.

(c) Borrowings

Borrowings are recognised initially at fair value. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

(d) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS continued

(e) Derivative financial instruments

1. Managing financial risk
The Group's activities expose it primarily to the financial risks of changes in credit risk, interest rates and foreign exchange rates. The Group uses derivative financial instruments to minimise potential adverse effects from certain risk exposures.

- Interest rate risk
Borrowings at variable interest rates expose the Group to interest rate risk. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps with a range of terms. These interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

- Foreign exchange risk
The Group is exposed to foreign exchange risk when purchasing major items of plant and equipment with payment denominated in a foreign currency. Foreign currency forward purchase contracts are used to limit the Group's exposure to movements in exchange rates on foreign currency denominated liabilities and purchase commitments.

- Market risk
The fair value of shares in listed companies will fluctuate as a result of changes in market prices. Market prices for a particular share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market.

- Credit risk
In the normal course of business the Group incurs credit risk from trade receivables. Reflecting the nature of the business, a concentration of credit risk occurs due to a small number of shipping line and warehousing clients comprising a majority amount of port trade receivables. Regular monitoring of trade receivables is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

2. Accounting for derivative financial instruments
Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates hedges of highly probable forecast transactions as cash flow hedges. Changes in the fair value of derivatives qualifying as cash flow hedges are recognised in other comprehensive income and transferred to the cash flow hedge reserve in equity. The ineffective component of the fair value changes on the hedging instrument is recorded directly in the income statement.

When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

For qualifying hedge relationships, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The net differential paid or received on interest rate swaps is recognised as a component of interest expense over the period of the swap agreement.

NOTES TO THE FINANCIAL STATEMENTS continued

(f) Fair value estimation

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The fair value of listed shares traded actively on the stock exchange is based on quoted market prices at the balance date.

Employee benefits

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave, sick leave, long service leave, retiring allowances, superannuation contributions, profit sharing and bonus plans when it is probable that settlement will be required.

(a) Short term employee benefits

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at undiscounted amounts based on remuneration rates that the Group expects to pay.

(b) Long term employee benefits

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date. These provisions are affected by a number of estimates including projected interest rates, the expected length of service of employees and future levels of employee earnings.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are calculated by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Revenue recognition

(a) Provision of services

Revenue from port services is recognised in the accounting period in which the actual service is provided to the customer.

(b) Rental income

Rental income is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(c) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the asset to that asset's net carrying amount.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established, being the declaration date of the dividend.

(e) Sale of investments, investment property and property held for sale

Net gains or losses on the sale of investments, investment property and property held for sale are recognised when an unconditional contract is in place and it is probable that the Group will receive the consideration due and significant risks and rewards of ownership of assets have been transferred to the buyer.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the tax expense is also recognised in equity.

NOTES TO THE FINANCIAL STATEMENTS continued

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted by the balance date.

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Goods and services tax (GST)

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Critical estimates and accounting

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom, by definition, equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimate of Fair Value of Investment Property

At each balance date the Group obtains annual valuations of investment property, determined by registered independent valuers, in accordance with the accounting policy stated in the statement of accounting policies.

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information recent sales prices of similar properties in less active markets are used, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Changes in property market values, including changes arising from alterations to proposed and existing planning rules, may result in the fair values of investment property being different from previous estimates. The carrying amount of investment property is detailed in note 10.

Property, plant and equipment

At each balance date, the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful lives and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life of residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of financial performance, and carrying amount of the asset in the statement of financial position. The Group minimises the risk of this estimation uncertainty by:

- Physical inspection of assets;
- Asset replacement programmes;
- Analysis of prior asset sales.

The Group has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amount of plant and equipment is disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS continued

Comparatives
Certain prior period revenue and expenditure have been reclassified between functional categories for consistency with the current period.

Changes in accounting policies
All accounting policies have been applied on bases consistent with those used in the financial statements for the year ended 30 June 2009.

Standards and interpretations effective in the current period
NZ IFRS 8 on operating segments which became effective for periods commencing on or after 1 January 2009 has had no impact to the disclosures in these financial statements. Also, NZ IAS 1 on presentation of financial statements, which prescribes the basis for general purpose financial statements and minimum requirements for their structure, became effective during the year to 30 June 2010 and has resulted in minor changes in the presentation of the information, including introducing the Statement of Comprehensive Income for the first time.

Standards, amendments and interpretations issued but not yet effective
The Group has not applied the following standards, amendments and interpretations that have been issued but are not yet effective:
- NZ IAS 24 Related Party Disclosures (revised 2009)
- NZ IFRS 9 Financial Instruments – Phase 1: Classification and Measurement

Application of the standards, amendments and interpretations is not expected to have a material impact on the financial account balances of the Group.

3. Operating expenses

Expenses incurred in the financial year of $47 million include the following:

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Auditors' remuneration					
Audit services – Audit New Zealand		94	94	63	63
Audit services – Pricewaterhouse Coopers		4	4	-	-
Total auditors' remuneration		**98**	**98**	**63**	**63**
Bad and doubtful debts					
Bad debts recovered		(7)	(28)	(7)	(28)
Bad debts written off		4	2	-	2
Total bad and doubtful debts		**(3)**	**(26)**	**(7)**	**(26)**
Directors' remuneration		371	365	272	265
Defined contribution plan employer contributions		1,009	932	1,001	925
Donations and community sponsorship		34	38	34	38
Loss on disposal of assets		256	8	256	23
Operating leases		1,261	1,269	1,193	1,233
Depreciation and amortisation					
Depreciation of property, plant and equipment	9	6,535	6,659	6,493	6,624
Amortisation of intangibles	12	375	395	344	395
Amortised leasing costs		96	88	-	-
Total depreciation and amortisation		**7,006**	**7,142**	**6,837**	**7,019**

NOTES TO THE FINANCIAL STATEMENTS continued

4. Borrowing costs

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Interest income		267	358	22	117
Interest expense		(8,361)	(7,544)	(5,823)	(5,382)
Interest capitalised	16	592	611	-	-
Foreign exchange gain/(loss)		(101)	(1)	(101)	(1)
		(7,603)	**(6,576)**	**(5,902)**	**(5,266)**

5. Income taxes

a) The total charge for the year can be reconciled to the accounting profit as follows:

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Profit before tax		**18,252**	**18,899**	**10,552**	**10,359**
Imputation credits		332	346	332	346
		18,584	19,245	10,884	10,705
Prima facie tax expense at 30%		(5,575)	(5,774)	(3,265)	(3,211)
Non deductible items		(705)	338	(488)	21
Non assessable income		350	-	1,170	930
Unrealised change in investment property		1,165	1,146	-	-
Tax loss offset		168	186	168	186
Prior year adjustment		48	71	75	39
Deferred tax asset (liability) not previously recognised		284	(619)	284	-
Benefit of imputation credits		332	346	332	346
Income tax expense		**(3,933)**	**(4,306)**	**(1,724)**	**(1,689)**
Allocated between:					
Current tax payable		(4,373)	(3,697)	(1,990)	(2,116)
Deferred tax		440	(609)	266	427

b) The New Zealand Government has enacted legislation to change the company tax rate from 30% to 28% and reduce the tax depreciation rate on buildings, with a life of 50 years or more, to 0% effective from 1 April 2011. This change impacts temporary differences reversing after the 2011 financial year. The taxation expense of $8.021 million relating to deferred taxation on buildings, as required under IFRS, will not be payable as the Group holds the investment properties on capital account.

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Deferred tax asset (liability) relating to tax depreciation rate on buildings reduced to 0%		(8,021)	-	(3,280)	-
Adjustments relating to changes in tax rates		1,416	-	796	-
Deferred tax adjustment		**(6,605)**	**-**	**(2,484)**	**-**

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes (continued)

c) The movements in the imputation credit account are:

	Notes	Group 2010 $000	Group 2009 $000	Parent Company 2010 $000	Parent Company 2009 $000
Balance at beginning of the year		22,727	25,453	21,200	22,210
Attached to dividends received		332	346	2,004	3,132
Taxation paid		4,100	1,995	2,205	958
Attached to dividends paid		(3,000)	(5,100)	(3,000)	(5,100)
Prior year adjustment		-	33	-	-
Balance at end of the year		**24,159**	**22,727**	**22,409**	**21,200**

Imputation credits are attached directly and indirectly to shareholders of the parent company, through:

	2010 $000	2009 $000
Parent Company	22,409	21,200
Subsidiaries	1,750	1,527
	24,159	22,727

Port Otago Limited is part of a consolidated tax group including its subsidiary, Chalmers Properties Limited. The Parent Company imputation credits shown above reflects Port Otago Limited's share of the consolidated tax group's imputation credit account.

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes (continued)

d) The following are the major deferred tax liabilities and assets and the movements thereon during the current and prior reporting periods.

Group	Notes	Property, Plant and Equipment $000	Investment Property $000	Financial Instruments $000	Other $000	Total $000
Balance 1 July 2009		13,408	4,449	(1,797)	(1,565)	14,495
Charged / (credited) to hedging reserve direct to equity		-	-	766	-	766
Charged / (credited) to income statement		2,358	4,210	(461)	58	6,165
Balance at 30 June 2010		**15,766**	**8,659**	**(1,492)**	**(1,507)**	**21,426**
Balance 1 July 2008		13,340	3,368	621	(1,195)	16,134
Charged / (credited) to hedging reserve direct to equity		-	-	(2,248)	-	(2,248)
Charged / (credited) to income statement		68	1,081	(170)	(370)	609
Balance at 30 June 2009		**13,408**	**4,449**	**(1,797)**	**(1,565)**	**14,495**

Parent Company	Notes	Property, Plant and Equipment $000	Investment Property $000	Financial Instruments $000	Other $000	Total $000
Balance 1 July 2009		13,408	-	(1,333)	(1,826)	10,249
Charged / (credited) to hedging reserve direct to equity		-	-	474	-	474
Charged / (credited) to income statement		2,358	-	(325)	185	2,218
Balance at 30 June 2010		**15,766**	**-**	**(1,184)**	**(1,641)**	**12,941**
Balance 1 July 2008		13,340	-	435	(1,413)	12,362
Charged / (credited) to hedging reserve direct to equity		-	-	(1,686)	-	(1,686)
Charged / (credited) to income statement		68	-	(82)	(413)	(427)
Balance at 30 June 2009		**13,408**	**-**	**(1,333)**	**(1,826)**	**10,249**

NOTES TO THE FINANCIAL STATEMENTS continued

6. Trade and other receivables

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Trade receivables		6,446	6,300	5,474	5,438
Amount owing by subsidiaries and related parties		-	11	145	96
Prepayments		386	397	337	336
		6,832	**6,708**	**5,956**	**5,870**

7. Finance leases

	Notes	Minimum Future Lease Payments Group		Present Value of Minimum Future Lease Receivables Group	
		2010 $000	2009 $000	2010 $000	2009 $000
Repayments due:					
No later than 1 year		214	214	114	103
Later than 1 year and not later than 5 years		855	855	590	533
Later than 5 years		374	587	344	514
Minimum future lease payments		1,443	1,656	1,048	1,150
Gross finance lease receivables		1,443	1,656	1,048	1,150
Less unearned finance income		(395)	(506)	-	-
Present value of minimum lease payments		**1,048**	**1,150**	**1,048**	**1,150**

Included in the financial statements as:		
Current	114	103
Non-current	934	1,047
	1,048	1,150

The finance lease receivable relates to the Group funding of tenant improvements to an investment property. A lease commenced in April 2007 for an initial period of 10 years and the finance lease receivable will be recovered over this period. The pre-tax interest rate applicable to the finance lease receivable is 10.2%. Interest income is recognised on a consistent basis to produce a constant rate of return on the net investment.

8. Secured advances

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Advances receivable		1,370	-	-	-
		1,370	**-**	**-**	**-**

Interest is payable by the borrower on a monthly basis, with the current rate of interest being 6.94%. The advance is to be repaid in full by 30 September 2010. The advance is secured by the borrower's shares and interests in a number of unincorporated joint ventures and is also subject to a personal guarantee from a party related to the borrower.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, plant and equipment

Group

Current period to 30 June 2010

	Land $000	Buildings and Improvements $000	Wharves and Berth Dredging $000	Plant, Equipment and Vehicles $000	Capital Work in Progress $000	Total $000
Cost						
Balance 1 July 2009	34,319	34,451	49,355	71,832	2,303	192,260
Additions	-	252	-	5,445	8,188	13,885
Disposals	(407)	-	-	(805)	(11)	(1,223)
Transfers	-	-	-	-	(5,780)	(5,780)
Cost at 30 June 2010	33,912	34,703	49,355	76,472	4,700	199,142
Accumulated depreciation						
Balance 1 July 2009	-	5,542	6,604	26,787	-	38,933
Depreciation for period	-	1,237	1,401	3,897	-	6,535
Disposals	-	-	-	(729)	-	(729)
Depreciation at 30 June 2010	-	6,779	8,005	29,955	-	44,739
Net book value						
At 30 June 2009	34,319	28,909	42,751	45,045	2,303	153,327
At 30 June 2010	**33,912**	**27,924**	**41,350**	**46,517**	**4,700**	**154,403**

Comparative period to 30 June 2009

	Land $000	Buildings and Improvements $000	Wharves and Berth Dredging $000	Plant, Equipment and Vehicles $000	Capital Work in Progress $000	Total $000
Cost						
Balance 1 July 2008	34,073	34,521	49,311	69,693	3,301	190,899
Additions	246	169	44	5,354	-	5,813
Disposals	-	(239)	-	(3,215)	(998)	(4,452)
Cost at 30 June 2009	34,319	34,451	49,355	71,832	2,303	192,260
Accumulated depreciation						
Balance 1 July 2008	-	4,203	5,202	26,089	-	35,494
Depreciation for period	-	1,381	1,402	3,876	-	6,659
Disposals	-	(42)	-	(3,178)	-	(3,220)
Depreciation at 30 June 2009	-	5,542	6,604	26,787	-	38,933
Net book value						
At 30 June 2008	34,073	30,318	44,109	43,604	3,301	155,405
At 30 June 2009	**34,319**	**28,909**	**42,751**	**45,045**	**2,303**	**153,327**

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, plant and equipment (continued)

Parent Company

Current period to 30 June 2010

	Land $000	Buildings and Improvements $000	Wharves and Berth Dredging $000	Plant, Equipment and Vehicles $000	Capital Work in Progress $000	Total $000
Cost						
Balance 1 July 2009	34,319	34,451	49,355	71,530	2,168	191,823
Additions	-	252	-	5,406	8,188	13,846
Disposals	(407)	-	-	(770)	(11)	(1,188)
Transfers	-	-	-	-	(5,648)	(5,648)
Cost at 30 June 2010	33,912	34,703	49,355	76,166	4,697	198,833
Accumulated depreciation						
Balance 1 July 2009	-	5,542	6,604	26,662	-	38,808
Depreciation for period	-	1,237	1,401	3,855	-	6,493
Disposals	-	-	-	(727)	-	(727)
Depreciation at 30 June 2010	-	6,779	8,005	29,790	-	44,574
Net book value						
At 30 June 2009	34,319	28,909	42,751	44,868	2,168	153,015
At 30 June 2010	**33,912**	**27,924**	**41,350**	**46,376**	**4,697**	**154,259**

Comparative period to 30 June 2009

	Land $000	Buildings and Improvements $000	Wharves and Berth Dredging $000	Plant, Equipment and Vehicles $000	Capital Work in Progress $000	Total $000
Cost						
Balance 1 July 2008	34,073	34,521	49,311	69,357	3,301	190,563
Additions	246	169	44	5,353	-	5,812
Disposals	-	(239)	-	(3,180)	(1,133)	(4,552)
Cost at 30 June 2009	34,319	34,451	49,355	71,530	2,168	191,823
Accumulated depreciation						
Balance 1 July 2008	-	4,203	5,202	25,984	-	35,389
Depreciation for period	-	1,381	1,402	3,841	-	6,624
Disposals	-	(42)	-	(3,163)	-	(3,205)
Depreciation at 30 June 2009	-	5,542	6,604	26,662	-	38,808
Net book value						
At 30 June 2008	34,073	30,318	44,109	43,373	3,301	155,174
At 30 June 2009	**34,319**	**28,909**	**42,751**	**44,868**	**2,168**	**153,015**

NOTES TO THE FINANCIAL STATEMENTS continued

10. Investment property

	Notes	Group 2010 $000	Group 2009 $000
Balance at beginning of year		207,479	189,467
Property purchased		5,707	11,633
Property improvements during the period		35	338
Net movement in prepaid leasing costs		(69)	-
Interest capitalised		592	611
Transfer from property deposit		644	-
Property sold		(12,851)	-
Unrealised change in the value of investment property		3,198	5,430
Change in the value of investment property realised during the period		(314)	-
Transfer to property held for sale	11	-	-
Balance at end of year		**204,421**	**207,479**
Comprising:			
Property portfolio at cost		74,092	68,791
Revaluation		130,329	138,688
		204,421	207,479
Valued at 30 June balance date as determined by:			
Barlow Justice Limited		3,980	5,180
Colliers International		102,892	107,303
Darroch Limited		21,700	21,500
Seagar & Partners (Manukau) Limited		75,849	73,496
Property recorded at fair value		204,421	207,479

The Group's investment properties are valued annually at fair value effective 30 June. Fair value reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of the current market conditions.

All valuations were completed by registered independent valuers who conform with the New Zealand Property Institute Practice Standards. The valuers have extensive market knowledge in the types of investment properties owned by the Group.

All investment properties were valued based on open market evidence including market rentals, land sales and yield information available to the valuers.

Included within the gross values for investment properties are capitalised leasing costs. These costs represent expenditure incurred by the Group in relation to letting of property. These costs are initially recorded as an asset and amortised over the life of the lease they relate to. At balance date $344,000 (last year: $411,000) of capitalised leasing costs are included in the gross balance of investment properties.

There were no significant contractual obligations of a capital and/or maintenance nature relating to the current investment property portfolio at balance date (last year: nil).

NOTES TO THE FINANCIAL STATEMENTS continued

11. Property held for sale

	Notes	Group	
		2010 $000	2009 $000
Balance at beginning of year		1,420	1,420
Transfer from investment property	10	-	-
Balance at end of year		**1,420**	**1,420**
Comprising:			
Property held for sale - at cost		250	250
Property held for sale - valuation component at the time of transfer		1,170	1,170
		1,420	1,420

The Group holds a 50% interest in The Hamilton Joint Venture (HJV) which has contracted to sell 10% of its Newby 1 block to the Chief Executive of Chalmers Properties Limited (CPL). Note 24(b) contains details of the contract terms. The Group's share of 10% of the Newby 1 block is reflected as Property held for sale since the land is to be sold in the ordinary course of business. The $1.42 million of property held for sale is expected to be recovered in more than 12 months after 30 June 2010.

12. Intangible assets

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Opening cost		4,258	3,620	4,258	3,620
Plus additions		297	668	171	668
Less disposals		-	(30)	-	(30)
Closing cost		4,555	4,258	4,429	4,258
Opening amortisation		(3,537)	(3,172)	(3,537)	(3,172)
Amortisation for period	3	(375)	(395)	(344)	(395)
Plus disposals		-	30	-	30
Closing amortisation		(3,912)	(3,537)	(3,881)	(3,537)
Balance		**643**	**721**	**548**	**721**

13. Trade and other payables

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Accounts payable		2,584	2,756	2,152	2,262
Other accrued charges		1,449	1,213	1,444	1,196
Vendor mortgage payable		-	4,542	-	-
Balance		**4,033**	**8,511**	**3,596**	**3,458**

NOTES TO THE FINANCIAL STATEMENTS continued

14. Employee entitlements

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Accrued wages and salaries		703	1,304	583	1,221
Annual leave		2,951	2,838	2,951	2,838
Long service leave		555	588	555	588
Retiring allowances		302	459	302	459
Sick leave		92	89	92	89
Employee incentive	24(b)	476	402	-	-
Balance		**5,079**	**5,680**	**4,483**	**5,195**
Analysed as:					
Current		3,746	4,231	3,625	4,148
Non current		1,333	1,449	858	1,047
		5,079	5,680	4,483	5,195

15. Borrowings

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Bank borrowings		**98,117**	**102,690**	**69,130**	**75,340**
Analysed as:					
Current		10,500	-	-	-
Non current		87,617	102,690	69,130	75,340
		98,117	102,690	69,130	75,340

(a) Port Otago Group facility

The Group has a $110 million committed facility with ANZ National Bank Limited. The Group may draw funding for terms ranging from call to the termination of the agreement, which is 31 October 2012.

The security for advances is a general security agreement over the assets of the Group.

(b) Hamilton Joint Venture facility

The Group has a 50% interest in The Hamilton Joint Venture (HJV) which has a $21 million committed facility with ANZ National Bank Limited. HJV may draw funding for terms ranging from call to the termination of the facility, which is 5 March 2011. At 30 June 2010 HJV had drawn $21 million under its facility (last year: $21 million), with the Group's 50% share amounting to $10.5 million.

Security for bank advances under the Hamilton Joint Venture facility is as follows:

- A first registered mortgage over various joint venture land holdings.
- A general security agreement over the assets of both joint venture participants. Perpetual Property Limited is the Group's joint venture participant.
- Guarantees (each limited to $21 million) from the owners of both joint venture participants. Chalmers Properties Limited is the owner of the Group's joint venture participant.

NOTES TO THE FINANCIAL STATEMENTS continued

15. Borrowings (continued)

(c) Hamilton Porter Joint Venture facility

The Group has a 33.3% interest in The Hamilton Porter Joint Venture (HPJV) which has an $8 million short term advances facility with ANZ National Bank Limited. HPJV may draw funding for terms ranging from call to the termination of the facility, which is 31 March 2013.

Security for bank advances under the Hamilton Porter Joint Venture facility is as follows:

- A first registered mortgage over various joint venture land holdings.
- A general security agreement over the assets of the joint venture participants. Perpetual Property Limited is the Group's joint venture participant.
- Guarantees (each limited to $9 million) from the owners of the joint venture participants. Chalmers Properties Limited is the owner of the Group's joint venture participant.

The carrying amount of borrowings reflects fair value as the borrowing finance rates approximate market rates.

16. Capitalised borrowing costs

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Borrowing costs capitalised during the year		592	611	-	-
Weighted average capitalisation rate on funds borrowed		7.74%	8.97%	-	-

17. Share capital

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Issued and paid up capital 20,000,000 shares		20,000	20,000	20,000	20,000

All shares carry equal voting rights and the right to share in any surplus on the winding up of the Group.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Reserves

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Retained earnings					
Balance at beginning of year		117,806	115,543	94,299	92,529
Profit for the year		7,714	14,593	6,344	8,670
Less dividends paid	26	(7,000)	(6,900)	(7,000)	(6,900)
Transfers (to)/from property revaluation reserve:					
Revaluations realised on property sold		11,558	-	-	-
Unrealised change in the value of investment property	10	(3,198)	(5,430)	-	-
Balance at end of year		**126,880**	**117,806**	**93,643**	**94,299**
(a) Property revaluation reserve:					
Balance at beginning of year		138,689	133,259	-	-
Transfers from/(to) retained earnings:					
Realised on property sold		(11,558)	-	-	-
Change in value of investment property	10	3,198	5,430	-	-
Balance at end of year		**130,329**	**138,689**	**-**	**-**
(b) Available-for-sale revaluation reserve:					
Balance at beginning of year		(231)	(1,656)	(231)	(1,656)
Valuation gain/(loss) recognised		-	1,425	-	1,425
Balance at end of year		**(231)**	**(231)**	**(231)**	**(231)**
(c) Hedging reserve:					
Balance at beginning of year		(6,076)	(831)	(4,465)	(528)
Change in fair value of interest rate swaps		2,362	(7,493)	1,419	(5,623)
Deferred tax arising on fair value movement		(766)	2,248	(474)	1,686
Balance at end of year		**(4,480)**	**(6,076)**	**(3,520)**	**(4,465)**
Total Reserves		**252,498**	**250,188**	**89,892**	**89,603**

The available-for-sale revaluation reserve arises on the revaluation of shares in listed companies. Where a financial asset is sold that portion of the reserve which relates to that financial asset and is effectively realised is recognised in the income statement. Where a financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in the income statement.

The available-for-sale revaluation reserve has a balance of $231,000 (last year: $231,000). This reflects the difference at balance date between the market price of listed shares and their cost. The value of the shares has not been impaired, and the amount has not been taken to the income statement, as per the view of the directors, the market price as at 30 June 2010 does not reflect a permanent impairment to their value.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial instruments

(a) Financial instrument categories

The accounting policies for financial instruments have been applied to the line items below:

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Financial assets				
Loans and receivables				
Cash and cash equivalents	515	253	-	5,315
Debtors and other receivables	6,832	6,708	5,956	5,870
Secured advances	1,370	-	-	-
Property deposit	-	644	-	-
Other financial assets:				
- finance leases	1,048	1,150	-	-
Total loans and receivables	**9,765**	**8,755**	**5,956**	**11,185**
Fair value through equity				
Shares in listed companies	36,713	36,713	36,713	36,713

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Financial liabilities				
Derivative financial instruments				
Hedge accounted	(4,418)	(5,762)	(3,575)	(4,283)
Non-hedge accounted derivatives	(748)	(229)	(537)	(166)
Total derivative financial instruments	**(5,166)**	**(5,991)**	**(4,112)**	**(4,449)**
Financial liabilities at amortised cost				
Cash and cash equivalents	-	-	(269)	-
Creditors and other payables	(4,033)	(8,511)	(3,596)	(3,458)
Borrowings:				
- secured loans	(98,117)	(102,690)	(69,130)	(75,340)
Total financial liabilities at amortised cost	**(102,150)**	**(111,201)**	**(72,995)**	**(78,798)**

(b) Credit quality of financial assets

The maximum credit exposure for each class of financial asset is as follows:

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Cash at bank and term deposits	515	253	-	5,315
Debtors and other receivables	6,832	6,708	5,956	5,870
Finance leases	1,048	1,150	-	-
Property deposit	-	644	-	-
Secured advances	1,370	-	-	-
Total credit risk	**9,765**	**8,755**	**5,956**	**11,185**

Debtors and other receivables mainly arise from the Group's principal activities and procedures are in place to regularly monitor trade receivables to ensure that the credit exposure remains within the Group's normal terms of trade.

Regular monitoring of other financial assets is undertaken to ensure the credit exposure is appropriate for that class of asset.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial instruments (continued)

(c) Contractual maturity analysis of financial instruments

Financial assets

The table below analyses financial assets into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date.

	Carrying Amount $000	Contractual Cash Flows $000	Less Than 1 Year $000	1 Year or Greater $000
Group 2010				
Cash and cash equivalents	515	515	515	-
Debtors and other receivables	6,832	6,832	6,832	-
Finance leases	1,048	1,443	214	1,229
Secured advances	1,370	1,370	1,370	-
Total	9,765	10,160	8,931	1,229
Parent Company 2010				
Debtors and other receivables	5,956	5,956	5,956	-
Total	5,956	5,956	5,956	-
Group 2009				
Cash and cash equivalents	253	253	253	-
Debtors and other receivables	6,708	6,708	6,708	-
Finance leases	1,150	1,657	214	1,443
Property deposit	644	644	-	644
Total	8,755	9,262	7,175	2,087
Parent Company 2009				
Cash and cash equivalents	5,315	5,315	5,315	-
Debtors and other receivables	5,870	5,870	5,870	-
Total	11,185	11,185	11,185	-

Financial liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at the balance date.

The amounts disclosed are the contractual undiscounted cash flows.

	Carrying Amount $000	Contractual Cash Flows $000	Less Than 1 Year $000	1 Year or Greater $000
Group 2010				
Creditors and other payables	(4,033)	(4,033)	(4,033)	-
Net settled derivative liabilities	(5,166)	(5,926)	(2,652)	(3,274)
Secured loans	(98,117)	(117,728)	(41,491)	(76,237)
Total	(107,316)	(127,687)	(48,176)	(79,511)
Parent Company 2010				
Cash and cash equivalents	(269)	(269)	(269)	-
Creditors and other payables	(3,596)	(3,596)	(3,596)	-
Net settled derivative liabilities	(4,112)	(4,749)	(2,039)	(2,710)
Secured loans	(69,130)	(84,696)	(25,156)	(59,540)
Total	(77,107)	(93,310)	(31,060)	(62,250)
Group 2009				
Creditors and other payables	(8,511)	(8,669)	(8,669)	-
Net settled derivative liabilities	(5,991)	(6,202)	(3,552)	(2,650)
Secured loans	(102,690)	(127,066)	(6,405)	(120,661)
Total	(117,192)	(141,937)	(18,626)	(123,311)
Parent Company 2009				
Creditors and other payables	(3,458)	(3,458)	(3,458)	-
Net settled derivative liabilities	(4,449)	(4,621)	(2,481)	(2,140)
Secured loans	(75,340)	(94,151)	(4,499)	(89,652)
Total	(83,247)	(102,230)	(10,438)	(91,792)

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial instruments (continued)

(d) Sensitivity analysis of financial instruments

The tables below illustrate the potential profit and equity (excluding retained earnings) impact for reasonably possible market movements where the impact is significant.

Group	2010				2009			
	-100bps		+100bps		-100bps		+100bps	
	Profit $000	Other Equity $000	Profit $000	Other Equity $000	Profit $000	Other Equity $000	Profit $000	Other Equity $000
Interest rate risk								
Financial liabilities								
Derivatives								
- hedge accounted	-	(2,321)	-	2,219	-	(3,032)	-	2,886
Borrowings	700	-	(700)	-	611	-	(611)	-
Total sensitivity to interest rate risk	**700**	**(2,321)**	**(700)**	**2,219**	**611**	**(3,032)**	**(611)**	**2,886**
	-10%		+10%		-10%		+10%	
	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity
Equity price risk								
Financial assets								
Shares in listed companies	-	(3,671)	-	3,671	-	(3,671)	-	3,671
Total sensitivity to equity price risk	**-**	**(3,671)**	**-**	**3,671**	**-**	**(3,671)**	**-**	**3,671**

Parent Company	2010				2009			
	-100bps		+100bps		-100bps		+100bps	
	Profit $000	Other Equity $000	Profit $000	Other Equity $000	Profit $000	Other Equity $000	Profit $000	Other Equity $000
Interest rate risk								
Financial liabilities								
Derivatives								
- hedge accounted	-	(1,851)	-	1,767	-	(2,350)	-	2,234
Borrowings	514	-	(514)	-	498	-	(498)	-
Total sensitivity to interest rate risk	**514**	**(1,851)**	**(514)**	**1,767**	**498**	**(2,350)**	**(498)**	**2,234**
	-10%		+10%		-10%		+10%	
	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity
Equity price risk								
Financial assets								
Shares in listed companies	-	(3,671)	-	3,671	-	(3,671)	-	3,671
Total sensitivity to equity price risk	**-**	**(3,671)**	**-**	**3,671**	**-**	**(3,671)**	**-**	**3,671**

NOTES TO THE FINANCIAL STATEMENTS continued

20. Reconciliation of consolidated operating cash flows

	Notes	Group 2010 $000	Group 2009 $000	Parent Company 2010 $000	Parent Company 2009 $000
The reconciliation between profit & the cash flow from operations is:					
Profit for the period		7,714	14,593	6,344	8,670
Plus/(less) non cash items:					
Unrealised net change in the value of investment property		(3,198)	(5,430)	-	-
Depreciation and amortisation		7,006	7,142	6,837	7,019
Interest on deferred settlement		158	-	-	-
Movement in the fair value of interest rate swaps		1,537	567	1,082	275
Movement in non-current employee entitlements		(115)	61	(190)	23
Movement in deferred tax		6,166	609	2,218	(426)
Plus/(less) items classified as investing activities:					
Loss/(gain) on sale of property, plant and equipment		112	(48)	112	(48)
Loss/(gain) on disposal of investment property		(1,283)	8	-	-
Movement in working capital items:					
Trade and other receivables		(126)	293	(37)	3,835
Trade and other payables		62	134	138	416
Current employee entitlements		(485)	549	(523)	616
Income tax		258	1,702	(215)	1,156
Inventories		(72)	(153)	(72)	(153)
Movement in working capital items classified as investing activities		(6)	-	-	-
Net cash flows from operating activities		**17,728**	**20,027**	**15,694**	**21,383**

21. Investment in subsidiaries, associates and joint ventures

Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities at Dunedin. The company also has substantial property holdings. The following tables detail the principal activities of the company's subsidiaries, associates and joint ventures:

Name	Percentage Owned	Balance Date	Principal Activity
Subsidiaries			
Chalmers Properties Limited	100%	30 June	Property investment
Perpetual Property Limited	100%	30 June	Property investment
South Freight Limited	100%	30 June	Dormant (non trading)
Fiordland Pilot Services Limited	100%	30 June	Shipping services
Associates			
Hamilton JV Investment Company Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.2 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.3 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.4 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.5 Limited	50%	30 June	Dormant (non trading)
Hamilton JV (N3) Limited	50%	30 June	Property trustee (non trading)
Hamilton Porter JV Company Limited	33.3%	30 June	Property trustee (non trading)
Ormiston Road JV Company Limited	50%	30 June	Property trustee (non trading

NOTES TO THE FINANCIAL STATEMENTS continued

21. Investment in subsidiaries, associates and joint ventures (continued)

Joint ventures are joint arrangements with other parties in which the Group has several liability in respect of costs and joint and several in respect of liabilities. The Group's share of the assets, liabilities, revenues and expenses of joint ventures is incorporated into the Group's financial statements on a line-by-line basis.

The Group's interest in the jointly controlled entities are as follows:

Name	Percentage Owned	Balance Date	Principal Activity
Joint ventures			
HarbourCold Dunedin	50%	30 June	Cold store operation
The Hamilton Joint Venture	50%	30 June	Property investment
Hamilton JV Number 2	50%	30 June	Property investment
Hamilton JV Number 3	50%	30 June	Property investment
Hamilton JV Number 4	50%	30 June	Property investment
Hamilton JV (N3)	50%	30 June	Property investment
Hamilton Porter JV	33.3%	30 June	Property investment
Ormiston Road Joint Venture	50%	30 June	Property investment

Port Otago Limited's investment in wholly owned subsidiary companies is recorded at cost.

The financial statements include the relevant interest in each joint venture's assets and liabilities at 30 June 2010 along with the share of trading for the relevant period.

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Current assets		1,675	1,615	201	160
Non current assets		26,875	29,579	23	33
Total assets		28,550	31,194	224	193
Current liabilities		(10,730)	(539)	(45)	(28)
Non current liabilities		(3,143)	(14,557)	-	-
Total liabilities		(13,873)	(15,096)	(45)	(28)
Net assets		**14,677**	**16,098**	**179**	**165**
Income		1,111	3,036	969	867
Expenses		(5,151)	(1,109)	(801)	(759)

Any capital commitments and contingent liabilities arising from the Group's interest in joint ventures are disclosed in notes 22 and 23 respectively.

NOTES TO THE FINANCIAL STATEMENTS continued

22. Capital expenditure commitment

At 30 June 2010 the Group had commitments/approvals for capital expenditure of $2.6 million (last year: $9.0 million).

Included within capital commitments is capital expenditure of $2.6 million (last year: $3.3 million) which relates to purchases of the port's assets.

Operating lease commitments as lessor

The Company has entered into commercial property leases. These non-cancellable leases have remaining non-cancellable lease terms of up to 21 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	Notes	Group		Parent Company	
		2010 $000	2009 $000	2010 $000	2009 $000
Rentals receivable					
Within one year		12,628	12,374	2,587	2,500
After one year but not more than five years		35,594	37,049	4,345	4,921
More than five years		46,249	46,184	2,830	1,095
Minimum future lease receivable		**94,471**	**95,607**	**9,762**	**8,516**

23. Contingent liabilities

Apart from the matters noted below, there are no contingent liabilities at 30 June 2010 (30 June 2009: nil) other than those arising in the normal course of business.

Guarantees

The Group has a 50% interest in The Hamilton Joint Venture (HJV). As part of funding arrangements the Group has guaranteed joint venture borrowings from ANZ National Bank Limited to a limit of $21 million. At 30 June 2010 joint venture bank borrowings were $21 million (last year: $21 million) and the Group's 50% share, amounting to $10.5 million, was recorded as a current liability in the balance sheet. Note 15 contains further details.

The Group has a 33.3% interest in The Hamilton Porter Joint Venture (HPJV). As part of funding arrangements the Group has guaranteed joint venture borrowings from ANZ National Bank Limited to a limit of $9 million. At 30 June 2010 joint venture bank borrowings were $8 million (last year: nil) and the Group's 33.3% share, amounting to $2.7 million, was recorded as a non-current liability in the balance sheet. Note 15 contains further details.

Contract for the sale of joint venture land

A joint venture in which the Group has a 33.3% share has entered into a long-term conditional contract to sell a subdivided site for $1.8 million. The purchaser may cancel the contract if an Approved Survey Plan is not lodged by April 2013.

Merger negotiation fees

In November 2008 the Company entered into a Memorandum of Understanding with Lyttelton Port Company Limited (LPC) to explore a merger of port operations. The parties commissioned an independent expert to review the proposed merger and report to the respective Boards (The Antipodes Report) covering valuation of the port operating businesses, identification and analysis of future benefits and preferred structure for implementing the proposal. Based on this report the respective Boards of the Company and LPC agreed to proceed to the next stage of discussions.

Following this agreement, the Company appointed Deutsche Bank AG as independent advisors to assist with the negotiation and due diligence process. Deutsche Bank AG has been engaged by way of a success fee, meaning that a fee is only payable upon successful completion of a merger transaction between the Company and LPC. Until negotiations with LPC are complete the Company is unable to reliably assess the amount of the fee payable, if any.

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties

(a) Transactions within the Group and with Otago Regional Council

Related party revenue/(expenditure)transactions during the year:

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
• **Otago Regional Council**				
Contribution towards operation of Harbour Control Centre	60	60	60	60
Property rental	7	6	7	6
Rates expense	(30)	(6)	(30)	(6)
Capital expense	(8)	(1)	(8)	(1)
Other expense	(5)	-	(5)	-
• **Chalmers Properties Limited**				
Administration services provided	-	-	200	240
Consultancy fees	-	-	(50)	(75)
Interest expense	-	-	(134)	(305)
Interest income	-	-	7	3
• **Fiordland Pilot Services Limited**				
Interest income	-	-	1	13
• **Harbourcold Dunedin**				
Property rental	-	-	544	544
Expenditure	-	-	(113)	(109)

Amounts receivable from related parties are included in note 6.

During the year the Company and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer tax losses to the Company. In conjunction with the tax loss transfer of $393,000, by way of a tax loss offset, the Company made a subvention payment of $169,000 to the ORC. The consequence of the tax loss transfer and the subvention payment was a $169,000 reduction in income tax payments in the current year.

Tax losses from Perpetual Property Limited are offset against the taxable income of Chalmers Properties Limited, both subsidiaries of the Company. There were no tax losses to offset in the 2010 year (2009: $934,000).

(b) Financial arrangement – Hamilton Joint Ventures

The Group has an interest in certain Hamilton Joint Ventures. Pursuant to the joint venture agreements Chalmers Properties Limited (CPL), through the services of its Chief Executive, is the manager for each of the Hamilton Joint Ventures. During the year ended 30 June 2008 The Hamilton Joint Venture agreed to sell 10% (of which the Group's half share amounts to 5%) of a 43.7 hectare block of joint venture land to the CPL Chief Executive.

The terms of the transaction with the CPL Chief Executive are as follows:

- Sale price of $2.84 million (plus GST if any) with deposits totalling $0.28 million payable when certain conditions are met and the balance payable on the vendor providing title.

- The Hamilton Joint Venture participants will pay 75% of the costs of developing the land to be sold, up to a maximum of $0.84 million plus tax, which amounts to $1.38 million after payroll taxes are added. The Group's share is 50% of this amount, or a maximum of $0.69 million.

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties (continued)

At 30 June 2010 a balance sheet provision (refer Note 14) reflects the Group's share of:

- the difference between the $2.84 nominal sale proceeds and the net present value of the sales proceeds, and

- the earned portion of the net present value of incentives to be reimbursed by The Hamilton Joint Venture participants. The discounted incentives are recognised as earned on a straight-line basis over the period from February 2008 to July 2015 (last year: February 2008 to February 2013).

(c) Other related party transactions

Director(s)	Related Party	Nature of Relationship
D R Black	Chairman of Farra Dunedin Engineering Limited	Supplier to the Group Lease of property from Group
E J Harvey	Director of Kathmandu Holdings Limited	Lease of property from Group
E G Johnson	Chairman of Fulton Hogan Group	Supplier to the Group Lease of property from Group
	Director of National Institute of Water and Atmospheric Research Limited	Supplier to the Group
V H Pooch	Director of Key Business Partners Limited	Supplier to the Group
D J Faulkner	Director of Fulton Hogan Limited	Supplier to the Group

Related party revenue/(expenditure)transactions during the year:

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
• **Farra Dunedin Engineering Limited**				
Property rental	36	27	-	-
Maintenance expense	(58)	(44)	(58)	(44)
• **Fulton Hogan Group companies**				
Property rental	9	8	9	8
Transport and warehouse revenue	1	3	1	3
Maintenance expense	(78)	(287)	(78)	(287)
Capital expenditure	(142)	(5)	(142)	(5)
• **Kathmandu Holdings Limited**				
Property rental	98	-	-	-
• **Key Business Partners Limited**				
Consultancy services	(3)	(1)	(3)	(1)
• **National Institute of Water and Atmospheric Research Limited**				
Consultancy services	-	(13)	-	(13)
Capital expenditure	(20)	(311)	(20)	(311)

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties (continued)

Related party receivable/(payable) at year end:

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
• **Otago Regional Council**				
Receivable	19	28	19	28
Accounts payable	(8)	-	(8)	-
• **HarbourCold Dunedin**				
Accounts payable	-	-	(10)	(3)
• **Fulton Hogan Group Companies**				
Receivable	1	1	1	1
Accounts payable	-	(82)	-	(82)
• **Farra Dunedin Engineering Limited**				
Receivable	11	7	-	-
• **National Institute of Water and Atmospheric Research Limited**				
Accounts payable	-	(37)	-	(37)

All related party transactions are conducted by the management of the respective companies on a commercial and arms length basis.

The amounts owing to/from related parties are payable in accordance with the company's normal terms of trade. No related party debts have been written off or forgiven during the year.

25. Key management personnel compensation

The gross remuneration of directors and key management personnel during the year was as follows:

	Group		Parent Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Directors' fees	371	365	272	265
Salaries and other short-term employee benefits	1,721	1,799	1,353	1,358
	2,092	**2,164**	**1,625**	**1,623**

Included in the gross remuneration of key management personnel are termination payments of $130,000 (Last year: nil).

NOTES TO THE FINANCIAL STATEMENTS continued

26. Dividends – Group and Parent Company

	Notes	2010 $000	2009 $000
Declared and proposed in respect of the current financial year:			
Interim dividend		2,500	2,500
Second interim dividend		2,600	2,500
Special dividend		-	-
Final dividend		1,900	1,900
Dividends for the financial year		**7,000**	**6,900**
Adjust for dividends declared after year end:			
2010 Final dividend declared September 2010	28	(1,900)	-
2009 Final dividend declared September 2009		1,900	(1,900)
2008 Final dividend declared August 2008		-	1,900
Dividend distributed to owners as disclosed in the Consolidated Statement of Changes in Equity		7,000	6,900
Dividends per share (cents)		35.0	34.5

27. Operating leases - Group and Parent Company

The future minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Notes	2010 $000	2009 $000
Payable within one year		547	550
Payable within one to two years		280	547
Payable within two to five years		-	280
		827	**1,377**

A significant portion of the total non-cancellable operating lease amount relates to the lease of a cold store. This lease commenced in April 2007 for a 5-year period expiring in March 2012. Other operating leases comprise leases of vehicles and equipment.

28. Significant events after balance date

Dividends

On 7 September 2010 the directors declared a final dividend of $1.9 million for the year ended 30 June 2010. As the final dividend was approved after balance date, the financial effect of the dividend payable of $1.9 million has not been recognised in the balance sheet.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit Report

To the readers of
Port Otago Limited and Group's
financial statements
for the year ended 30 June 2010

The Auditor General is the auditor of Port Otago Limited (the Company) and Group. The Auditor General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Company and Group, on her behalf, for the year ended 30 June 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 7 to 38:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the Company and Group's financial position as at 30 June 2010; and
    - the results of operations and cash flows for the year ended on that date.
- Based on our examination the Company and Group kept proper accounting records.

The audit was completed on 7 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.
Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;

AUDIT REPORT continued

- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and group as at 30 June 2010 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Port Companies Act 1988, and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19 of the Port Companies Act 1988.

Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Company or any of its subsidiaries.

Bede Kearney
Audit New Zealand
On behalf of the Auditor General
Dunedin, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Port Otago Limited and group for the year ended 30 June 2010 included on the Port Otago Limited's website. The Port Otago Limited's Board of Directors is responsible for the maintenance and integrity of the Port Otago Limited's website. We have not been engaged to report on the integrity of the Port Otago Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 7 September 2010 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

STATUTORY DISCLOSURE

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2010.

Group activities
Port Otago Limited provides a full range of port facilities, cargo handling and warehousing services at the Port of Otago.

Chalmers Properties Limited, a wholly owned subsidiary, manages the Group's investment property portfolio.

Financial results
The Group recorded a profit for the year of $7.7 million (after a deferred tax adjustment of $6.6 million resulting from a change in tax legislation), compared to $14.6 million last year.

Dividends
A final dividend of $1.9 million will be paid on 7 September 2010, which brings total dividends for the year to $7.0 million.

Changes in accounting policies
Accounting policies have been applied on a consistent basis with the prior year.

Directors
In accordance with the Company's constitution at least one third of the Directors retire by rotation at each Annual Meeting. The Directors who retire in each year are those who have been longest in office since their last election or appointment.

At the Company's last Annual Meeting, held on 9 December 2009, Messrs D R Black and V H Pooch retired by rotation and were reappointed. Mr D J Faulkner was appointed as a director on 11 December 2009.

Directors remuneration
Remuneration paid by the Port Otago Group to Directors during the year was:

	Port Otago Limited $000	Chalmers Properties Limited $000	Total Group $000
J W Gilks (Chairman)	91	14	105
D R Black (Deputy Chairman)	45	18	63
E J Harvey	32	8	40
D J Faulkner [A]	14	4	18
E G Johnson	29	8	37
D Rillstone	32	21	53
V H Pooch	29	26	55
	272	**99**	**371**

[A] Appointed during the year

STATUTORY DISCLOSURE continued

Directors interests

Directors have disclosed the following general interests for the year ended 30 June 2010 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
J W Gilks	Business in the Community Limited	Director
	Dublin Bay Investments Limited	Director
	Fisher & Paykel Appliances Holdings Limited (and its wholly owned subsidiaries)	Director
	Fisher & Paykel Finance Limited (and its wholly owned subsidiaries)	Director
	Wanaka Storage Limited	Director
	Philip Laing House Limited	Director
	Receivables Management (N.Z.) Limited (and its wholly owned subsidiaries)	Chairman
D R Black	Clough Holdings Limited	Chairman
	Farra Engineering Limited	Chairman
	Forests Otago Limited	Chairman
	Otago Rescue Helicopter Trust	Chairman
	Healthcare Otago Charitable Trust	Chairman
D J Faulkner	Brightwater Group Limited	Director
	Fulton Hogan Limited (and its wholly owned subsidiaries)	Director
	Helenslee Investments Limited	Chairman
	Pokeno Village Holdings Limited	Chairman
	Southern Aggregates Limited	Director
	WFH Properties Limited	Chairman
	WFH Properties (No 2) Limited	Chairman
E J Harvey	DNZ Property Fund Limited	Director
	Kathmandu Holdings Limited	Director
	MARAC Finance Limited	Director
	New Zealand Opera Limited	Director
	Pomare Investments Limited	Director
E G Johnson	Bank of New Zealand	Director
	Fulton Hogan Limited (and its wholly owned subsidiaries)	Chairman
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	Indevin Limited (and its wholly owned subsidiaries)	Chairman
	National Institute of Water and Atmospheric Research Limited (and its wholly owned subsidiaries)	Director
	Port Marlborough (New Zealand) Limited (and its wholly owned subsidiaries)	Chairman
	Stone Farm Holdings Limited	Director
	Wine Export Partners (New Zealand) Limited	Chairman
V H Pooch	Key Business Partners Limited	Director
	Southern Hospitality Limited	Chairman
	Goom Landscapes Limited	Chairman
	Number Power Limited	Director
D Rillstone	Crosshill Farm Limited	Director
	Hazlett & Sons Limited (and its wholly owned subsidiaries)	Chairman
	Medic Limited	Director
	Payton Holdings Limited	Director
	Barker Fruit Processors Limited	Director

STATUTORY DISCLOSURE continued

Employee remuneration

During the year, the number of employees of Port Otago Limited and its subsidiaries who received total remuneration in excess of $100,000 are:

Remuneration range ($)	Existing Employees	Terminated Employees*
360,001 – 370,000	1	-
350,001 – 360,000	-	1
320,001 – 330,000	1	-
220,001 – 230,000	-	2
200,001 – 210,000	1	-
190,001 – 200,000	1	-
180,001 – 190,000	2	1
170,001 – 180,000	3	-
160,001 – 170,000	2	-
150,001 – 160,000	2	1
140,001 – 150,000	2	2
130,001 – 140,000	1	2
120,001 – 130,000	2	2
110,001 – 120,000	1	2
100,001 – 110,000	7	2

Remuneration includes salary, bonuses, motor vehicles and other sundry benefits received in the person's capacity as an employee.

*Several employees finished working for the Group during the period and, due to redundancy and other termination payments, their normal levels of remuneration were exceeded.

Directors of subsidiary companies

Directors fees for Chalmers Properties Limited are shown under directors remuneration. No directors fees were paid by Fiordland Pilot Services Limited, Perpetual Property Limited and South Freight Limited.

The following persons held office as directors of subsidiary companies at 30 June 2010, or resigned during the year - as indicated with an (R):

Company	Director
Chalmers Properties Limited	J W Gilks, D R Black, D J Faulkner, E J Harvey, E G Johnson, V H Pooch, D Rillstone
Fiordland Pilot Services Limited	J W Gilks, D R Black, D J Faulkner, E J Harvey, V H Pooch, D Rillstone
Perpetual Property Limited	J W Gilks, D R Black, D J Faulkner, E J Harvey, V H Pooch, D Rillstone
South Freight Limited	J W Gilks, A R Taggart (R)

Directors insurance

The Group provides insurance cover for directors under the following policies:

(a) Directors liability insurance which ensures that generally directors will incur no monetary loss as a result of action undertaken by them as directors.

(b) Personal accident insurance which covers directors while travelling on company business.

Use of Company Information

There were no notices received from Directors of the Company requesting to use Company information received in their capacity as Director, which would not otherwise have been available to them.

Auditors

The Auditor-General continues as the Company's auditor in accordance with the Port Companies Act 1988. The Auditor-General has appointed Audit New Zealand to undertake the audit on its behalf.

The Group audit fee for the year ended 30 June 2010 was $94,400 (last year: $94,400).

For and on behalf of the Board of Directors

J W Gilks
Chairman
7 September 2010

E J Harvey
Director
7 September 2010

DIRECTORY

Directors

John Gilks	Chairman
Ross Black	Deputy Chairman
John Harvey	Chairman Audit Committee
David Faulkner	
Ed Johnson	
Vincent Pooch	
Dougal Rillstone	

Executive

Geoff Plunket	Group Chief Executive
Lynn Smillie	General Manager Human Resources
Peter Brown	General Manager Commercial
Lincoln Coe	General Manager Infrastructure
Ron Horner	General Manager Operations
Stephen Connolly	Chief Financial Officer

Chalmers Properties Limited

Andrew Duncan	Chief Executive

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Bankers

ANZ National Bank Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General


Port Chalmers,
Dunedin

PORT OTAGO LIMITED

www.portotago.co.nz