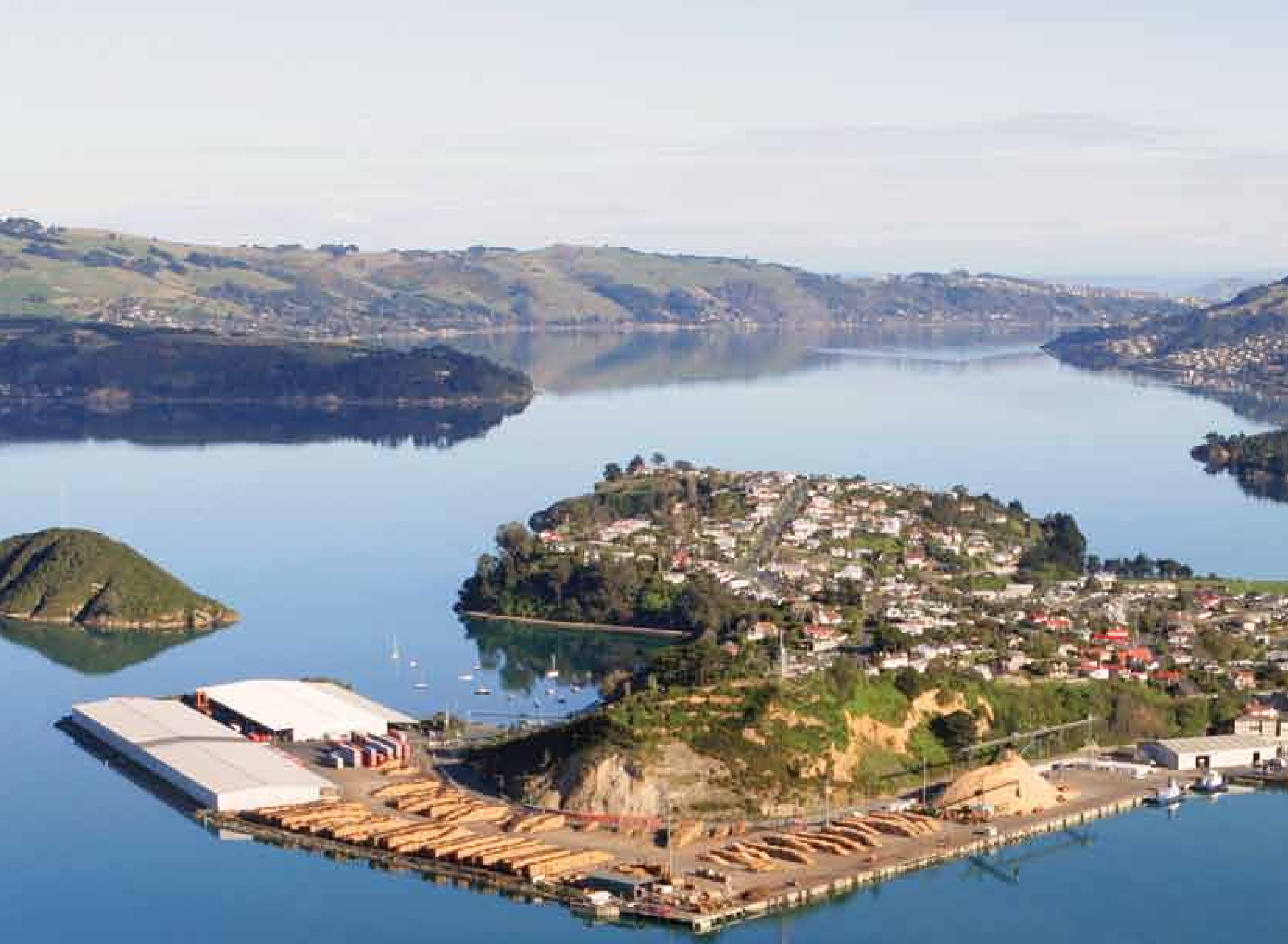
PORT OTAGO LIMITED

www.portotago.co.nz

# Annual Report 2011



Port Otago Limited **Annual Report 2011**

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# OVERVIEW OF GROUP RESULTS

| | 2011 $million | 2010 $million Restated |
|---|---|---|
| Revenue | 76.0 | 71.7 |
| Underlying profit after income tax # | 13.3 | 11.9 |
| Profit for the period | 9.4 | 12.4* |
| Total assets | 401.9 | 407.9 |
| Shareholders equity | 276.4 | 278.4* |
| Equity ratio | 69% | 68%* |
| Net asset backing per share | $13.82 | $13.92* |

## Trade

| | | |
|---|---|---|
| Container throughput (TEU) | 221,000 | 219,000 |
| Conventional cargo volume (000 tonnes) | 1,412 | 1,105 |
| Number of vessel arrivals | 505 | 502 |

*2010 restated for changes to accounting policies in respect of deferred tax assets and liabilities arising from investment properties.

# Underlying profit after tax is reported profit excluding fair value changes and other one-off items.

# FIVE YEAR SUMMARY

| Trade analysis | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Number of ships | 505 | 502 | 589 | 551 | 617 |
| Cargo throughput (000's tonnes) | 3,623 | 3,284 | 3,034 | 3,052 | 2,974 |

| Financial comparisons | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| Operating revenue | 74,213 | 70,295 | 67,177 | 62,564 | 59,373 |
| EBITDA from operations | 32,442 | 30,293 | 28,719 | 26,494 | 27,314 |
| **Surplus from operations (EBIT)** | | | | | |
| Port operations | 15,991 | 13,625 | 12,994 | 14,612 | 13,614 |
| Investment property | 10,871 | 10,468 | 7,617 | 7,408 | 6,599 |
| Total group EBIT | 26,862 | 24,093 | 20,611 | 22,020 | 20,213 |
| Underlying profit after tax # | 13,312 | 11,864 | 12,761 | 7,578 | 11,061 |
| Unrealised net change in value of investment property | (5,178) | 3,198 | 5,430 | 17,915 | 24,884 |
| Profit for the year | 9,400 | 12,378 | 15,877 | 27,788 | 39,281 |
| Dividends for financial year * | 12,250 | 7,000 | 6,900 | 9,400 | 6,900 |
| Shareholders equity | 276,444 | 278,446 | 271,472 | 266,315 | 251,923 |
| **Total assets** | | | | | |
| Port operations | 201,808 | 198,284 | 202,177 | 203,090 | 206,034 |
| Investment property | 200,076 | 209,638 | 206,723 | 198,409 | 189,907 |
| Total group | 401,884 | 407,922 | 408,900 | 401,499 | 395,941 |
| Shareholders equity | 69% | 68% | 66% | 66% | 64% |
| Net asset backing per share | $13.82 | $13.92 | $13.57 | $13.32 | $12.60 |
| Earnings per share (cents) | 47.0 | 61.9 | 73.0 | 138.9 | 196.4 |
| Dividends per share (cents)* | 61.3 | 35.0 | 34.5 | 47.0 | 34.5 |
| **Return on equity**** | | | | | |
| before unrealised revaluations | 5.3% | 4.0% | 3.4% | 3.8% | 6.2% |
| after unrealised revaluations | 3.4% | 5.2% | 5.4% | 10.7% | 16.9% |
| **EBIT return on assets** | | | | | |
| Port operations | 6.9% | 6.9% | 6.6% | 7.1% | 6.7% |
| Investment property | 4.9% | 5.0% | 3.7% | 3.8% | 3.7% |
| Total group | 5.9% | 5.9% | 5.1% | 5.5% | 5.4% |

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 26.
** Profit, excluding non-cash Deferred Tax Adjustment, divided by average shareholders equity.
\# Underlying profit after tax is reported profit excluding fair value changes and other one off items.

# CHAIRMAN'S REVIEW

### Financial results overview

The Port Otago Group achieved a profit for the year of $9.4 million. This compares to $12.4 million for the previous year, a reduction of 24%. Included in the profit are fair value adjustments and other one off transactions, both positive and negative, which can make the comparison of profits between years difficult. The underlying profit after tax which excludes fair value adjustments and one-off items, of $13.3 million, is a 12% increase and provides a measure of the excellent operational Group result.

The results are summarised in the following table:

| (years ended 30 June) | 2011 $m | 2010 $m | Change |
|---|---|---|---|
| Operating revenue | 74.2 | 70.3 | +6% |
| EBITDA | 32.4 | 30.3 | +7% |
| Underlying profit after tax | 13.3 | 11.9 | +12% |
| *Plus (Less)* | | | |
| One-off items | 1.6 | (2.1) | |
| Fair value changes | (5.5) | 2.6 | |
| Profit for the year | 9.4 | 12.4 | -24% |

Revenue increased by $3.9 million and this more than offset the increase in expenses of $1.8 million resulting in the growth of EBITDA (Earnings before interest, taxation, depreciation, fair value adjustments and one-off items) by $2.1 million to $32.4 million for the year.

Included within fair value changes is an unrealised decrease of $5.2 million in investment property revaluations (last year a $3.2 million increase). Also included within fair value changes is an unrealised loss in derivative interest rate swaps and related deferred tax movements.

One-off items include a $1.7 million gain from the disposal of property (last year $1.4 million) and costs relating to the investigation of a merger with the Lyttelton Port Company. Prior year one-off items include restructuring costs and a non-cash deferred tax adjustment resulting from changes to depreciation on buildings.

### Dividend

Dividends paid or declared for the year ended 30 June 2011 totalled $12.25 million, which included a special dividend of $5.25 million. This brings the total dividends paid to our shareholder, the Otago Regional Council, to $103.1 million since Port Otago was incorporated in 1989. The current year's fully imputed dividends of $12.25 million compare with last year's total of $7.0 million.

### Trade

Overall, trade volumes increased by 10% to 3.6 million tonnes. Container throughput increased by 1% to 221,000 TEU (twenty foot equivalent units) with conventional cargo volumes further enjoying a surge in volumes to 1.4 million tonnes, up from 1.1 million tonnes last year.

### Project Next Generation

Following a resource consent hearing to deepen the channel in April 2011, a comprehensive decision addressing all the issues and supporting the project to deepen the shipping channel to 15 metres and extend the multipurpose container wharf, was issued. Six objections to the consents have been received. The Company is in the process of setting dates for mediation with the various objecting parties. The Company remains committed to the project to provide certainty of future developments over the next 20 years.

# CHAIRMAN'S REVIEW continued

### Health and Safety

The Board is dedicated to protecting the health and safety of our staff and is committed to achieving Zero Harm in our workplace.

It is most disappointing that the Lost Time Injury frequency rate increased to 11.8 (per million hours worked) from 9.0 recorded in the previous year. This is an unacceptable result which the Board will be seeking a significant reduction in for the year ahead.

### Staff

The Board thanks all staff for their on-going support and contribution to the Company. They have again responded positively to the challenges brought about by increased levels of business activity over the past year. Their commitment to delivering superior standards of customer service continues to be a key factor in the Port's success.

There will be fresh challenges in the coming year but we are confident that the dedication and determination of staff is fundamental to the success of Port Otago.

### Environment and community

The Port Environment / Liaison Committee continued to be a key forum for community representatives to discuss matters of local interest. Our Director, Dougal Rillstone, has been the Chairman of this Committee since 2001 and I thank him for the excellent work he has done in this role.

Progress has been maintained with the acoustic treatment programme which has seen the properties most affected areas nearly completed.

During the year donations of $57,000 were made to community activities, much of which was within the local Port Chalmers area.

### Shareholding in Lyttelton Port Company Limited (LPC)

The Company has maintained its 15.5% stake in LPC.

Negotiations with LPC around a possible operational merger of the two entities continued early in the year, but following the September 2010 earthquake that caused some damage to the Lyttelton Port facilities, the merger discussions between LPC and our Company were ended. It was disappointing after all the work that was put into these discussions that a final outcome, one way or the other, was unable to be concluded.

The Board still believes that it is in the best interests of the Company to retain the long term ownership of the shares in LPC.

### Chalmers Properties Limited (CPL)

The CPL investment property portfolio maintained its operating EBITDA at $9.3 million. This follows the disposal of a ground lease from the Old Industrial area, and reflects the rental growth within the existing property portfolio. The Dunedin ground lease disposal achieved a $1.7 million gain over the holding value of these assets.

CPL recorded a net $5.2 million decrease in the value of its investment property for the year. This reduction, which is unrealised, was on the basis of valuation reviews performed by independent valuers. This is the first time that there has been a reduction in the value of the portfolio since the Company commenced trading in 1998, during which time the property values have increased by $120 million.

Following the ground lease disposal and unrealised valuation decrease, CPL's property portfolio remains in excess of $197 million. At balance date 54%, by value, of the Group's investment property was located in Dunedin, 34% in Auckland and the remainder in Hamilton.

# CHAIRMAN'S REVIEW continued

## Directors

John Gilks retired as Chairman from the Board in December 2010 following a 23 year involvement with the Port Otago Group. John was appointed in 1987 by the Otago Harbour Board to the Establishment Unit which developed the plan for the establishment of Port Otago, which occurred in 1989. John was appointed to the Board at that time, initially as Deputy Chairman and he has been Chairman since 2001.

On behalf of the Board I would like to thank John for his outstanding contribution to the success of the Port Otago Group. We will miss his commitment to the industry and wealth of experience.

I also thank my fellow Directors for their ongoing support and contribution during the year.

## Outlook

Port companies are always faced with ever-changing shipping schedules. In May 2011 Maersk announced changes to their schedule which results in Port Otago losing its current South Island hub status. This change will see less tranship and empty containers handled through the Port.

Shortly after the Maersk announcement, a new CMA CGM service to the Port was confirmed which provides a much needed direct service to South East and North Asia for our Region's producers.

The anticipated reduction in container volumes for the coming year will present challenges, although the Board is confident in the long term prospects of the Group.

Port Otago is an essential infrastructure provider to the Otago region and South Island. This has required us to make decisions on the Company's future ability to handle larger vessels and increased trade volumes over time. Although larger vessels may be several years away, we must position the Company to be able to cope with them when they arrive as well as the expected future growth in cargo volumes which will come from the expanding agricultural and dairy sectors.

Although there is still some uncertainty in some global markets, the Board remains confident of the Company's continued success in the year ahead.

For and on behalf of the Board

David Faulkner
**Chairman**

# CHIEF EXECUTIVE'S REVIEW

It is pleasing to report on a successful year for the Port Otago Group. The record EBITDA result of $32.4 million, an increase of 7%, reflects the strong trading performance from Port operations and Chalmers Properties.

The underlying profit after tax is also the Group's best ever result at $13.3 million. This result is before fair value changes (mainly the write down in Chalmers Properties' portfolio) and one-off gains.

## Health and Safety

After five years of improving performance, it is disappointing to report on an increase in the number of lost time incidents (LTIs) during the year. There were 7 LTIs during the year, all of which were in the container terminal, to give an LTI frequency rate of 11.8 per million hours worked. While the LTI frequency rate continues to be below the industry average, it is significantly outside our commitment to Zero Harm. As a result there is currently a strong focus within the business on lifting our performance to ensure that we provide all staff with a safe working environment.

## Staff

I would like to acknowledge the contribution and commitment of all staff. The excellent financial result has been achieved through the delivery of outstanding customer service.

This year we have continued with our investment in our frontline leadership programme. This is a key part of our plan to develop our future leaders. The programme which consists of a range of structured sessions, visits to other businesses and individual mentoring for participants, is proving to be a valuable addition to our on-going training programmes.

## Trade

A record tonnage was handled through the Port in the past year. In addition the Company's warehousing, inland container depot, coldstore and transport businesses all enjoyed strong levels of activity and contributed positively to the overall result.

The container throughput was up by 1% to 221,000 TEU. Higher volumes through the main export season helped to offset the 5% reduction recorded in the interim period to 31 December.

Cargo originating from the Port's natural hinterland within Otago, Southland and South Canterbury continues to increase. This direct cargo volume grew by 8% in the last year which underlines the strength of the Port's productive hinterland. Projected production increases for dairy, meat and timber should see good growth in this direct cargo volume in the coming year.

Tranship cargo, cargo produced in other regions and then consolidated in Port Chalmers via smaller vessels for final export on larger ships, reduced by 18% during the past year due to shipping line changes. This type of cargo is traditionally volatile and will represent a smaller proportion of Port Otago's throughput in the coming year.

In May Maersk Line announced that its NZ1 service vessels would be replaced by smaller vessels which would call at additional New Zealand ports. As a consequence, from 1 July 2011 Port Otago loses its South Island hub port status and, as a result, the number of tranship containers coming through the Port will significantly reduce.

The announcement of a new service by CMA CGM provides a direct South East and North Asia service for the Region's producers. This will be a welcome addition to the services available from the Port providing both a direct call to two Chinese ports as well as extra shipping capacity to global markets.

Conventional cargoes increased by 27% to 1.4 million tonnes. The contributors to this were an increase in fertiliser exports and a 50% increase in log exports to 693,000 jas metres. In order to cater for this demand, the log storage area at Port Chalmers has been increased and a new area of 2.5 hectares has been made available for exporters within the Dunedin Port area.

HarbourCold Dunedin, a joint venture coldstore operation with the Sealord Group, completed another successful year with high levels of utilisation maintained throughout the fishing season. This joint venture has operated successfully for 10 years and the relationship between Port Otago and Sealord

# CHIEF EXECUTIVE'S REVIEW continued

remains strong and positively focused on the future.

Port Otago's Dunedin container depot and transport operations underwent significant changes during the year. South Freight's two Dunedin container depots were consolidated onto the Company's Strathallan Street site, adjacent to the main rail-head in Dunedin. This will streamline the Dunedin depot operation and it should improve customer service. Now that the long term lease for the site has been finalised with KiwiRail, the Company will progressively update facilities. Initial focus will be on construction of a new container wash facility and an upgrade of PTI and repair facilities.

On 30 June 2011, at the end of the financial year, South Freight's transport operation was merged with Harbour Logistics (a Dynes Transport Group Company) to form Icon Logistics. The transport industry is highly competitive and this consolidation strengthens the Port's position in providing an efficient and integrated service for shipping lines and shippers.

### Infrastructure

Capital expenditure during the year was $7.4 million. The main items were the purchase of two new straddle carriers and a further $1.0 million was incurred gaining the Next Generation consents.

The granting of the Next Generation consents following a hearing in April was a major milestone for the project. It has cost $3 million and taken four years to reach this stage in the process. Securing the resource consents will provide the surety required to plan for the future. With the consents in place, the Board and Management can proceed with the development of the Port in line with commercial demand and within a time frame that can be co-ordinated with the Lines' planning.

### Environmental

Excellent progress has been made in the past 12 months on the acoustic treatment programme, particularly in the red zone which is the area most affected by Port operations. Over the past year, ten acoustic treatment completion certificates were issued. In addition there are a further two properties where the acoustic treatment has been completed and the final certification is pending.

There is one further property in the red zone which requires acoustic treatment. Work will get underway shortly on this property. The completion of this work will bring to an end the acoustic treatment process in the red zone. This is an excellent outcome.

A total of $1.1 million has been spent over the past seven years on the acoustic treatment of property located close to the Port.

With the installation of the Careys Bay noise monitor during 2010 we are now able to monitor noise from the Port's operations at two locations on a real time basis. With the Scotia Street monitor having been operational for around 10 years, we have an excellent understanding of noise from Port operations. The monitoring has consistently shown the Port operation to be making less noise than predicted under the current "model predictions" for normal busy-time Port operations. In addition, while container volumes have increased by 75% over the past seven years there has been no increase in noise readings which are taken on a 5 day rolling average.

### Chalmers Properties

2011 has been a year of stability within the Chalmers Properties portfolio. The only capital transaction was the sale of a Dunedin ground lease which generated a profit on sale of $1.7 million. At year end the portfolio had a valuation of $197.9 million. This is after deducting an unrealised write-down of $5.2 million in the valuation of the portfolio.

The reduction in the value of the portfolio occurred within the Auckland and Hamilton properties. The Dunedin ground lease portfolio recorded a small increase in its value. The Auckland properties reduced in value by 7% to $69 million, while the Company's Hamilton land investment (which is held through a joint venture) reduced in value by 7% to $25 million.

The plan change for the Company's Hamilton land holding was successfully concluded during the year with all outstanding appeals being settled. While the rezoning of the land represents a major milestone for the investment, the additional value created from the rezoning was not sufficient to

# CHIEF EXECUTIVE'S REVIEW continued

offset the negative sentiment in the property market for larger blocks of undeveloped land.

The Company continues to trade well with all rental properties fully tenanted. Rental income was a record $11.4 million. The Company's newest acquisition, in 2009, in Dalgety Drive, Auckland is now fully tenanted, which will provide an additional rental income in the coming year.

The Company has continued to participate in the Harbourside Plan Change appeals. All parties have now reached agreement which finalises the appeal process. It is now up to the Dunedin City Council to determine if it wishes to proceed with the plan change.

**The future**

The diversified nature of the Group's activities between Port operations and property investment provides an underlying financial strength. The Port operating business and property company have both enjoyed a very successful year with improved earnings. Weakness in the global economy and the strength of the New Zealand dollar will potentially add to the challenges in the coming year.

Growth in export cargo from the Port's hinterland will require continued upgrading and investment in infrastructure and facilities. The Company is well placed to take advantage of the opportunities created from growth in cargo volumes.

Geoff Plunket

Geoff Plunket
**Group Chief Executive**

# PERFORMANCE TARGETS

## 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 | 221,000 TEU$^{Ø}$ | 218,000 TEU$^{Ø}$ | Target achieved |
| $^{Ø}$TEU = twenty foot equivalent units | | | |
| Conventional cargo throughput | 1.412 million tonnes | 1.105 million tonnes | Target achieved |
| Number of vessel arrivals | 505 vessels | 530 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) | 1.18 | 0.50 | Target not achieved |

## Financial performance

| | Port Otago Group Actual | Port Otago Group Target | |
|---|---|---|---|
| EBIT* return on assets | 5.9% | 6.1% | Target not achieved |
| Return on shareholders funds | 5.3% | 4.3% | Target achieved |
| Equity ratio | 69% | 68% | Target achieved |
| Debt servicing ratio (times) | 3.3 | 3.0 | Target achieved |

*EBIT = Earnings before interest and taxation

# CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2011

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| **Revenue** | | | | | |
| Port operations | | 62,390 | 58,363 | 62,194 | 58,315 |
| Investment property rental | | 11,364 | 11,157 | - | - |
| Dividend income | | 459 | 775 | 9,609 | 4,675 |
| Gain on disposal of property | | 1,750 | 1,428 | 395 | 144 |
| **Total revenue** | | **75,963** | **71,723** | **72,198** | **63,134** |
| **Expenses** | 3 | | | | |
| Staff costs | | (25,868) | (24,430) | (24,972) | (23,553) |
| Restructuring costs | | - | (1,674) | - | (1,674) |
| Fuel and electricity | | (3,227) | (2,960) | (3,126) | (2,891) |
| Purchased materials and services | | (12,675) | (10,937) | (11,622) | (10,121) |
| Depreciation and amortisation | | (7,330) | (7,006) | (7,158) | (6,837) |
| | | (49,100) | (47,007) | (46,878) | (45,076) |
| **Borrowing costs** | | | | | |
| Interest income | | 290 | 267 | 64 | 22 |
| Interest expense | | (7,355) | (7,769) | (5,839) | (5,823) |
| Foreign exchange gain/(loss) | | - | (101) | - | (101) |
| | 4 | (7,065) | (7,603) | (5,775) | (5,902) |
| **Operating profit before income tax** | | **19,798** | **17,113** | **19,545** | **12,156** |
| **Non-operating income and expenses** | | | | | |
| Merger investigation costs | | (76) | (353) | (76) | (353) |
| Subvention payment | | (3,000) | (169) | (2,207) | (169) |
| Unrealised net change in the value of investment property | 10 | (5,178) | 3,198 | - | - |
| Unrealised net change in value of interest rate swaps | | (553) | (1,537) | (433) | (1,082) |
| | | (8,807) | 1,139 | (2,716) | (1,604) |
| **Profit before income tax** | | **10,991** | **18,252** | **16,829** | **10,552** |
| Income tax expense | 5a | (1,591) | (4,010) | (535) | (1,724) |
| Deferred tax adjustment | 5b | - | (1,864) | - | (2,484) |
| **Profit for the year** | | **9,400** | **12,378** | **16,294** | **6,344** |

*The accompanying notes form part of these financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| Profit for the year | | 9,400 | 12,378 | 16,294 | 6,344 |
| **Other comprehensive income** | | | | | |
| *Available-for-sale financial assets* | | | | | |
| Unrealised increase/(decrease) in the value of share investments | 18b | 158 | - | 158 | - |
| *Cash flow hedges* | | | | | |
| Unrealised movement in hedging interest rate swaps (net of tax) | 18c | 690 | 1,596 | 471 | 945 |
| **Total comprehensive income for the year** | | **10,248** | **13,974** | **16,923** | **7,289** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| Equity at the beginning of the year | | 278,446 | 271,472 | 109,892 | 109,603 |
| Total comprehensive income for the year | | 10,248 | 13,974 | 16,923 | 7,289 |
| *Distribution to owners* | | | | | |
| Dividend paid | 26 | (12,250) | (7,000) | (12,250) | (7,000) |
| **Equity at the end of the year** | | **276,444** | **278,446** | **114,565** | **109,892** |

*The accompanying notes form part of these financial statements*

# CONSOLIDATED BALANCE SHEET
As at 30 June 2011

| | Notes | Group | | | Parent Company | |
|---|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2009 $000 Restated | 2011 $000 | 2010 $000 |
| **Current assets** | | | | | | |
| Cash and cash equivalents | | 924 | 515 | 253 | 511 | - |
| Trade and other receivables | 6 | 9,898 | 6,832 | 6,708 | 8,944 | 5,956 |
| Secured advances | 8 | - | 1,370 | - | - | - |
| Inventories | | 584 | 557 | 485 | 584 | 557 |
| Finance leases | 7 | 126 | 114 | 103 | - | - |
| | | 11,532 | 9,388 | 7,549 | 10,039 | 6,513 |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 9 | 153,931 | 154,403 | 153,327 | 153,791 | 154,259 |
| Investment property | 10 | 196,502 | 204,421 | 207,479 | - | - |
| Property held for sale | 11 | 1,420 | 1,420 | 1,420 | - | - |
| Property deposit | | - | - | 644 | - | - |
| Shares in listed companies | 19 | 36,871 | 36,713 | 36,713 | 36,871 | 36,713 |
| Investment in subsidiaries | | - | - | - | 7,000 | 7,000 |
| Finance leases | 7 | 808 | 934 | 1,047 | - | - |
| Intangible assets | 12 | 820 | 643 | 721 | 757 | 548 |
| | | 390,352 | 398,534 | 401,351 | 198,419 | 198,520 |
| **Total assets** | | **401,884** | **407,922** | **408,900** | **208,458** | **205,033** |
| **Current liabilities** | | | | | | |
| Cash and cash equivalents | | - | - | - | - | 269 |
| Trade and other payables | 13 | 4,382 | 4,033 | 8,511 | 3,754 | 3,596 |
| Borrowings (secured) | 15 | 10,500 | 10,500 | - | - | - |
| Employee entitlements | 14 | 4,126 | 3,746 | 4,231 | 3,979 | 3,625 |
| Derivative financial instruments | 19 | 1,985 | 2,230 | 3,501 | 1,607 | 1,683 |
| Income tax | | 5,073 | 1,603 | 1,345 | 3,010 | 610 |
| | | 26,066 | 22,112 | 17,588 | 12,350 | 9,783 |
| **Non-current liabilities** | | | | | | |
| Borrowings (secured) | 15 | 79,710 | 87,617 | 102,690 | 65,460 | 69,130 |
| Employee entitlements | 14 | 1,459 | 1,333 | 1,449 | 937 | 858 |
| Derivative financial instruments | 19 | 2,679 | 2,936 | 2,490 | 2,213 | 2,429 |
| Deferred tax liabilities | 5d | 15,526 | 15,478 | 13,211 | 12,933 | 12,941 |
| | | 99,374 | 107,364 | 119,840 | 81,543 | 85,358 |
| **Total liabilities** | | 125,440 | 129,476 | 137,428 | 93,893 | 95,141 |
| **Equity** | | | | | | |
| Share capital | 17 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Reserves | 18 | 256,444 | 258,446 | 251,472 | 94,565 | 89,892 |
| **Total equity** | | 276,444 | 278,446 | 271,472 | 114,565 | 109,892 |
| **Total equity and liabilities** | | **401,884** | **407,922** | **408,900** | **208,458** | **205,033** |

For and on behalf of the Board of Directors

**D J Faulkner**
*Chairman*

**E J Harvey**
*Director*

*The accompanying notes form part of these financial statements.*

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2011

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011<br>$000 | 2010<br>$000<br>Restated | 2011<br>$000 | 2010<br>$000 |
| **Cash flows from operating activities** | | | | | |
| *Cash was provided from:* | | | | | |
| Receipts from port operations | | 59,357 | 58,378 | 59,168 | 58,279 |
| Rental income | | 11,291 | 10,997 | - | - |
| Dividend received | | 459 | 775 | 9,609 | 4,675 |
| Interest received | | 290 | 267 | 64 | 22 |
| *Cash was disbursed to:* | | | | | |
| Payments to employees and suppliers | | (41,445) | (40,677) | (39,511) | (38,936) |
| Net GST received / (paid) | | 352 | (82) | 264 | (102) |
| Interest paid | | (7,277) | (7,648) | (5,778) | (5,870) |
| Subvention payments | | (3,000) | (168) | (2,207) | (168) |
| Income tax paid | | 1,562 | (4,114) | 1,604 | (2,206) |
| **Net cash flows from operating activities** | 20 | **21,589** | **17,728** | **23,213** | **15,694** |
| **Cash flows from investing activities** | | | | | |
| *Cash was provided from:* | | | | | |
| Sale of property, plant and equipment | | 476 | 340 | 832 | 340 |
| Sale of investment property | | 5,207 | 14,449 | - | - |
| Repayment of lessee improvements | | 114 | 103 | - | - |
| *Cash was applied to:* | | | | | |
| Purchase of property, plant and equipment | | (7,382) | (8,362) | (7,345) | (8,359) |
| Advances received / (repaid) | | 1,370 | (1,364) | - | (49) |
| Interest capitalised | 4 | (529) | (592) | - | - |
| Purchase of investment property | | (55) | (10,407) | - | - |
| Improvements to investment property | | (224) | (60) | - | - |
| **Net cash flows from (to) investing activities** | | **(1,023)** | **(5,893)** | **(6,513)** | **(8,068)** |
| **Cash flows from financing activities** | | | | | |
| *Cash was provided from:* | | | | | |
| Proceeds from borrowings | | 10,830 | 48,447 | 10,530 | 28,040 |
| *Cash was applied to:* | | | | | |
| Repayment of borrowings | | (18,737) | (53,020) | (14,200) | (34,250) |
| Dividends paid | 26 | (12,250) | (7,000) | (12,250) | (7,000) |
| **Net cash flows from (to) financing activities** | | **(20,157)** | **(11,573)** | **(15,920)** | **(13,210)** |
| **Increase (decrease) in cash held** | | **409** | **262** | **780** | **(5,584)** |
| Cash held at beginning of period | | 515 | 253 | (269) | 5,315 |
| **Cash held at end of period** | | **924** | **515** | **511** | **(269)** |

*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 2011. The financial statements were authorised for issue by the Board on 6 September 2011.

## 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 2011) 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. Independent investment property valuers are appointed on a 3 yearly rotational basis.

### 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 income statement, and carrying amount of the asset in the balance sheet. 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

The following new accounting policies are effective and have been applied by the Group for the 2011 financial year:

*NZ IAS 12 Income Taxes*

The Group has elected to early adopt the amendment to NZ IAS 12 which provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in NZ IAS 40 Investment Property. Under NZ IAS 12, the amendments introduce a presumption that an investment property is recovered entirely through sale. An exception is applied if the investment property is intended to be held for the objective of consuming substantially all of its useful life, rather than recovering through sale. The amendment has been retrospectively applied to the comparative periods with adjustments initially being made to the opening balance of retained earnings and deferred tax liability at 30 June 2009.

The impact on the Group of the change is a reversal of deferred tax liabilities arising from investment properties totalling $1.3 million as at 30 June 2009 and $5.9 million as at 30 June 2010.

| | | Previously Reported $000 | Restatement $000 | Restated $000 |
|---|---|---|---|---|
| **Consolidated Balance Sheet** | | | | |
| Deferred tax | 30 June 2009 | 14,495 | (1,284) | 13,211 |
| Deferred tax | 30 June 2010 | 21,426 | (5,948) | 15,478 |
| **Consolidated Income Statement** | | | | |
| Deferred tax | 30 June 2010 | (6,605) | 4,664 | (1,941) |
| **Consolidated Statement of Changes in Equity** | | | | |
| Retained earnings | 30 June 2009 | 270,188 | 1,284 | 271,472 |
| Retained earnings | 30 June 2010 | 272,498 | 5,948 | 278,446 |

### Standards, amendments and interpretations issued but not yet effective

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective, which are not expected to have a material impact but may affect presentation and disclosure:

- NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2013);
- NZ IAS 24 (Revised) Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 10 Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 12 Disclosures of Interest in Other Entities (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 13 Fair Value Measurements (effective for accounting periods beginning on or after 1 January 2013).

Other Standards and Interpretations in issue but not yet effective are not expected to have an impact in the financial statements of the Group in the period of initial application.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 3. Operating expenses

Expenses incurred in the financial year of $49 million include the following:

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Auditors' remuneration** | | | | | |
| Audit services – Audit New Zealand | | 94 | 94 | 65 | 63 |
| Audit services – PricewaterhouseCoopers | | 4 | 4 | - | - |
| **Total auditors' remuneration** | | **98** | **98** | **65** | **63** |
| | | | | | |
| **Bad and doubtful debts** | | | | | |
| Bad debts recovered | | (4) | (7) | (4) | (7) |
| Bad debts written off | | 1 | 4 | - | - |
| **Total bad and doubtful debts** | | **(3)** | **(3)** | **(4)** | **(7)** |
| | | | | | |
| Directors' remuneration | | 369 | 371 | 277 | 272 |
| Defined contribution plan employer contributions | | 1,057 | 1,009 | 1,047 | 1,001 |
| Donations and community sponsorship | | 57 | 34 | 57 | 34 |
| Loss on disposal of assets | | 12 | 256 | 12 | 256 |
| Operating leases | | 1,306 | 1,261 | 1,264 | 1,193 |
| | | | | | |
| **Depreciation and amortisation** | | | | | |
| Depreciation of property, plant and equipment | 9 | 6,894 | 6,535 | 6,858 | 6,493 |
| Amortisation of intangibles | 12 | 332 | 375 | 300 | 344 |
| Amortised leasing costs | | 104 | 96 | - | - |
| **Total depreciation and amortisation** | | **7,330** | **7,006** | **7,158** | **6,837** |

## 4. Borrowing costs

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Interest income | | 290 | 267 | 64 | 22 |
| Interest expense and bank facility fees | | (7,884) | (8,361) | (5,839) | (5,823) |
| Interest capitalised | 16 | 529 | 592 | - | - |
| Foreign exchange gain/(loss) | | - | (101) | - | (101) |
| | | **(7,065)** | **(7,603)** | **(5,775)** | **(5,902)** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 5. Income taxes

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

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| Profit before tax | | **10,991** | **18,252** | **16,829** | **10,552** |
| Imputation credits | | 197 | 332 | 197 | 332 |
| | | 11,188 | 18,584 | 17,026 | 10,884 |
| Prima facie tax expense at 30% | | (3,356) | (5,575) | (5,108) | (3,265) |
| Non-deductible items | | (1,939) | (705) | (864) | (488) |
| Non-assessable income | | 514 | 350 | 2,745 | 1,170 |
| Unrealised change in investment property | | (549) | 1,165 | - | - |
| Tax loss offset (via subvention payment) | | 3,000 | 168 | 2,207 | 168 |
| Prior year adjustment | | 226 | 48 | 26 | 75 |
| Deferred tax expense relating to the origination and reversal of temporary differences | | 316 | 207 | 262 | 284 |
| Benefit of imputation credits | | 197 | 332 | 197 | 332 |
| Income tax expense | | **(1,591)** | **(4,010)** | **(535)** | **(1,724)** |
| *Allocated between:* | | | | | |
| Current tax | | (5,133) | (4,589) | (3,030) | (2,233) |
| Prior period adjustments to current tax | | 3,226 | 216 | 2,233 | 243 |
| Deferred tax | | 316 | 363 | 262 | 266 |

b) The corporate tax rate in New Zealand changed from 30% to 28% and the tax depreciation rate on buildings, with a life of 50 years or more, reduced to 0% with effect from 1 April 2011. Deferred tax has been calculated at 28%.

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| Deferred tax asset (liability) relating to tax depreciation rate on buildings reduced to 0% | | - | (3,280) | - | (3,280) |
| Adjustments relating to changes in tax rates | | - | 1,416 | - | 796 |
| Deferred tax adjustment | | **-** | **(1,864)** | **-** | **(2,484)** |

c) The movements in the imputation credit account are:

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Balance at beginning of the year | | 24,159 | 22,727 | 22,409 | 21,200 |
| Attached to dividends received | | 197 | 332 | 4,118 | 2,004 |
| Taxation paid (refunded) | | (1,623) | 4,100 | (1,623) | 2,205 |
| Attached to dividends paid | | (5,250) | (3,000) | (5,250) | (3,000) |
| Prior year adjustment | | 68 | - | 52 | - |
| Balance at end of the year | | **17,551** | **24,159** | **19,706** | **22,409** |
| Imputation credits are attached directly and indirectly to shareholders of the parent company, through: | | | | | |
| Parent Company | | 19,706 | 22,409 | | |
| Subsidiaries | | (2,155) | 1,750 | | |
| | | 17,551 | 24,159 | | |

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 2010 | | 15,766 | 2,711 | (1,492) | (1,507) | 15,478 |
| Charged / (credited) to hedging reserve direct to equity | | - | - | 364 | - | 364 |
| Charged / (credited) to income statement | | (30) | 28 | (173) | (141) | (316) |
| **Balance at 30 June 2011** | | **15,736** | **2,739** | **(1,301)** | **(1,648)** | **15,526** |
| Balance 1 July 2009 | | 13,408 | 3,165 | (1,797) | (1,565) | 13,211 |
| Charged / (credited) to hedging reserve direct to equity | | - | - | 766 | - | 766 |
| Charged / (credited) to income statement | | 2,358 | (454) | (461) | 58 | 1,501 |
| **Balance at 30 June 2010** | | **15,766** | **2,711** | **(1,492)** | **(1,507)** | **15,478** |

| Parent Company | Notes | Property, Plant and Equipment $000 | Investment Property $000 | Financial Instruments $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|---|
| Balance 1 July 2010 | | 15,766 | - | (1,184) | (1,641) | 12,941 |
| Charged / (credited) to hedging reserve direct to equity | | - | - | 254 | - | 254 |
| Charged / (credited) to income statement | | (30) | - | (139) | (93) | (262) |
| **Balance at 30 June 2011** | | **15,736** | **-** | **(1,069)** | **(1,734)** | **12,933** |
| 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** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 6. Trade and other receivables

| | Notes | Group 2011 $000 | Group 2010 $000 | Parent Company 2011 $000 | Parent Company 2010 $000 |
|---|---|---|---|---|---|
| Trade receivables | | 9,552 | 6,446 | 8,501 | 5,474 |
| Amount owing by subsidiaries and related parties | | - | - | 141 | 145 |
| Prepayments | | 346 | 386 | 302 | 337 |
| Balance at end of year | | **9,898** | **6,832** | **8,944** | **5,956** |

## 7. Finance leases

| | Notes | Minimum Future Lease Payments Group 2011 $000 | Minimum Future Lease Payments Group 2010 $000 | Present Value of Minimum Future Lease Receivables Group 2011 $000 | Present Value of Minimum Future Lease Receivables Group 2010 $000 |
|---|---|---|---|---|---|
| Repayments due: | | | | | |
| No later than 1 year | | 214 | 214 | 126 | 114 |
| Later than 1 year and not later than 5 years | | 855 | 855 | 653 | 590 |
| Later than 5 years | | 160 | 374 | 155 | 344 |
| Minimum future lease payments | | 1,229 | 1,443 | 934 | 1,048 |
| Gross finance lease receivables | | 1,229 | 1,443 | 934 | 1,048 |
| Less unearned finance income | | (295) | (395) | - | - |
| Present value of minimum lease payments | | **934** | **1,048** | **934** | **1,048** |
| Included in the financial statements as: | | | | | |
| Current | | | | 126 | 114 |
| Non-current | | | | 808 | 934 |
| | | | | 934 | 1,048 |

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 2011 $000 | Group 2010 $000 | Parent Company 2011 $000 | Parent Company 2010 $000 |
|---|---|---|---|---|---|
| Balance at beginning of the year | | 1,370 | - | - | - |
| Secured advances provided | | - | 3,040 | - | - |
| Secured advances repaid | | (1,370) | (1,670) | - | - |
| Balance at end of year | | **-** | **1,370** | **-** | **-** |

Interest is payable by the borrower on a monthly basis, with the current rate of interest being 6.94%. The advance was repaid in full during the year.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 9. Property, plant and equipment

### Group

**Current period to 30 June 2011**

| | 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 2010 | 33,912 | 34,703 | 49,355 | 76,472 | 4,700 | 199,142 |
| Additions | 500 | 2,554 | - | 4,878 | 6,544 | 14,476 |
| Disposals | (420) | - | - | (1,881) | - | (2,301) |
| Transfers | - | - | - | - | (7,602) | (7,602) |
| Cost at 30 June 2011 | 33,992 | 37,257 | 49,355 | 79,469 | 3,642 | 203,715 |
| **Accumulated depreciation** | | | | | | |
| Balance 1 July 2010 | - | 6,779 | 8,005 | 29,955 | - | 44,739 |
| Depreciation for period | - | 1,222 | 1,401 | 4,271 | - | 6,894 |
| Disposals | - | - | - | (1,849) | - | (1,849) |
| Depreciation at 30 June 2011 | - | 8,001 | 9,406 | 32,377 | - | 49,784 |
| **Net book value** | | | | | | |
| At 30 June 2010 | 33,912 | 27,924 | 41,350 | 46,517 | 4,700 | 154,403 |
| At 30 June 2011 | **33,992** | **29,256** | **39,949** | **47,092** | **3,642** | **153,931** |

**Comparative 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** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 9. Property, plant and equipment (continued)

### Parent Company

**Current period to 30 June 2011**

| | 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 2010 | 33,912 | 34,703 | 49,355 | 76,166 | 4,697 | 198,833 |
| Additions | 500 | 2,554 | - | 4,842 | 6,541 | 14,437 |
| Disposals | (420) | - | - | (1,850) | - | (2,270) |
| Transfers | - | - | - | - | (7,599) | (7,599) |
| Cost at 30 June 2011 | 33,992 | 37,257 | 49,355 | 79,158 | 3,639 | 203,401 |
| **Accumulated depreciation** | | | | | | |
| Balance 1 July 2010 | - | 6,779 | 8,005 | 29,790 | - | 44,574 |
| Depreciation for period | - | 1,222 | 1,401 | 4,235 | - | 6,858 |
| Disposals | - | - | - | (1,822) | - | (1,822) |
| Depreciation at 30 June 2011 | - | 8,001 | 9,406 | 32,203 | - | 49,610 |
| **Net book value** | | | | | | |
| At 30 June 2010 | 33,912 | 27,924 | 41,350 | 46,376 | 4,697 | 154,259 |
| At 30 June 2011 | **33,992** | **29,256** | **39,949** | **46,955** | **3,639** | **153,791** |

**Comparative 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) | (5,659) | (6,836) |
| 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** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 10. Investment property

| | Notes | Group 2011 $000 | Group 2010 $000 |
|---|---|---|---|
| Balance at beginning of year | | 204,421 | 207,479 |
| Property purchased | | 420 | 5,707 |
| Property improvements during the period | | 120 | 35 |
| Net movement in prepaid leasing costs | | (1) | (69) |
| Interest capitalised | 16 | 529 | 592 |
| Transfer from property deposit | | - | 644 |
| Property sold | | (3,809) | (12,851) |
| Unrealised change in the value of investment property | | (5,178) | 3,198 |
| Change in the value of investment property realised during the period | | - | (314) |
| Transfer to property held for sale | 11 | - | - |
| **Balance at end of year** | | **196,502** | **204,421** |
| *Comprising:* | | | |
| Property portfolio at cost | | 76,392 | 75,263 |
| Revaluation | | 120,110 | 129,158 |
| | | 196,502 | 204,421 |
| *Valued at 30 June balance date as determined by:* | | | |
| Barlow Justice Limited | | - | 3,980 |
| Colliers International NZ Limited | | 171,566 | 102,892 |
| Darroch Limited | | - | 21,700 |
| Seagar & Partners (Manukau) Limited | | 24,936 | 75,849 |
| Property recorded at fair value | | 196,502 | 204,421 |

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 $343,000 (last year: $344,000) 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 2011 $000 | Group 2010 $000 |
|---|---|---|---|
| Balance at beginning of year | | 1,420 | 1,420 |
| Property sold | | - | - |
| 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 2011.

## 12. Intangible assets

| | Notes | Group 2011 $000 | Group 2010 $000 | Parent Company 2011 $000 | Parent Company 2010 $000 |
|---|---|---|---|---|---|
| Opening cost | | 4,555 | 4,258 | 4,429 | 4,258 |
| Plus additions | | 509 | 297 | 509 | 171 |
| Less disposals | | (7) | - | (7) | - |
| Closing cost | | 5,057 | 4,555 | 4,931 | 4,429 |
| Opening amortisation | | (3,912) | (3,537) | (3,881) | (3,537) |
| Amortisation for period | 3 | (332) | (375) | (300) | (344) |
| Plus disposals | | 7 | - | 7 | - |
| Closing amortisation | | (4,237) | (3,912) | (4,174) | (3,881) |
| **Balance at end of year** | | **820** | **643** | **757** | **548** |

## 13. Trade and other payables

| | Notes | Group 2011 $000 | Group 2010 $000 | Parent Company 2011 $000 | Parent Company 2010 $000 |
|---|---|---|---|---|---|
| Accounts payable | | 3,072 | 2,584 | 2,449 | 2,152 |
| Other accrued charges | | 1,310 | 1,449 | 1,305 | 1,444 |
| **Balance at end of year** | | **4,382** | **4,033** | **3,754** | **3,596** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 14. Employee entitlements

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Accrued wages and salaries and other benefits | | 735 | 703 | 588 | 583 |
| Annual leave | | 3,301 | 2,951 | 3,301 | 2,951 |
| Long service leave | | 633 | 555 | 633 | 555 |
| Retiring allowances | | 304 | 302 | 304 | 302 |
| Sick leave | | 90 | 92 | 90 | 92 |
| Employee incentive | 24(b) | 522 | 476 | - | - |
| Balance at end of year | | **5,585** | **5,079** | **4,916** | **4,483** |
| *Analysed as:* | | | | | |
| Current | | 4,126 | 3,746 | 3,979 | 3,625 |
| Non-current | | 1,459 | 1,333 | 937 | 858 |
| | | 5,585 | 5,079 | 4,916 | 4,483 |

## 15. Borrowings

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Bank borrowings** | | **90,210** | **98,117** | **65,460** | **69,130** |
| *Analysed as:* | | | | | |
| Current | | 10,500 | 10,500 | - | - |
| Non-current | | 79,710 | 87,617 | 65,460 | 69,130 |
| | | 90,210 | 98,117 | 65,460 | 69,130 |

(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 31 December 2011. At 30 June 2011 HJV had drawn $21 million under its facility (last year: $21 million), with the Group's 50% share amounting to $10.5 million (last year: $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 | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Borrowing costs capitalised during the year | | 529 | 592 | - | - |
| Weighted average capitalisation rate on funds borrowed | | 5.67% | 7.74% | - | - |

## 17. Share capital

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $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 | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| **Retained earnings** | | | | | |
| Balance at beginning of year | | 132,828 | 119,090 | 93,643 | 94,299 |
| Profit for the year | | 9,400 | 12,378 | 16,294 | 6,344 |
| Less dividends paid | 26 | (12,250) | (7,000) | (12,250) | (7,000) |
| **Transfers (to)/from property revaluation reserve:** | | | | | |
| Revaluations realised on property sold | | 3,870 | 11,558 | - | - |
| Unrealised change in the value of investment property | 10 | 5,178 | (3,198) | - | - |
| **Balance at end of year** | | **139,026** | **132,828** | **97,687** | **93,643** |
| **(a) Property revaluation reserve:** | | | | | |
| Balance at beginning of year | | 130,329 | 138,689 | - | - |
| **Transfers from/(to) retained earnings:** | | | | | |
| Realised on property sold | | (3,870) | (11,558) | - | - |
| Change in value of investment property | 10 | (5,178) | 3,198 | - | - |
| **Balance at end of year** | | **121,281** | **130,329** | **-** | **-** |
| **(b) Available-for-sale revaluation reserve:** | | | | | |
| Balance at beginning of year | | (231) | (231) | (231) | (231) |
| Valuation gain/(loss) recognised | | 158 | - | 158 | - |
| **Balance at end of year** | | **(73)** | **(231)** | **(73)** | **(231)** |
| **(c) Hedging reserve:** | | | | | |
| Balance at beginning of year | | (4,480) | (6,076) | (3,520) | (4,465) |
| Change in fair value of interest rate swaps | | 1,054 | 2,362 | 725 | 1,419 |
| Deferred tax arising on fair value movement | | (364) | (766) | (254) | (474) |
| **Balance at end of year** | | **(3,790)** | **(4,480)** | **(3,049)** | **(3,520)** |
| **Total Reserves** | | **256,444** | **258,446** | **94,565** | **89,892** |

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 $73,000 (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 2011 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2011 $000 | 2011 $000 | 2010 $000 |
| **Financial assets** | | | | |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | 924 | 515 | 511 | - |
| Debtors and other receivables | 9,898 | 6,832 | 8,944 | 5,956 |
| Secured advances | - | 1,370 | - | - |
| Other financial assets: | | | | |
| - finance leases | 934 | 1,048 | - | - |
| **Total loans and receivables** | **11,756** | **9,765** | **9,455** | **5,956** |
| **Fair value through equity** | | | | |
| Shares in listed companies | 36,871 | 36,713 | 36,871 | 36,713 |

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Financial liabilities** | | | | |
| **Derivative financial instruments** | | | | |
| Hedge accounted | (4,158) | (4,418) | (3,506) | (3,575) |
| Non-hedge accounted derivatives | (506) | (748) | (314) | (537) |
| **Total derivative financial instruments** | **(4,664)** | **(5,166)** | **(3,820)** | **(4,112)** |
| **Financial liabilities at amortised cost** | | | | |
| Cash and cash equivalents | - | - | - | (269) |
| Creditors and other payables | (4,382) | (4,033) | (3,754) | (3,596) |
| Borrowings: | | | | |
| - secured loans | (90,210) | (98,117) | (65,460) | (69,130) |
| **Total financial liabilities at amortised cost** | **(94,592)** | **(102,150)** | **(69,214)** | **(72,995)** |

### (b) Credit quality of financial assets

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

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Cash at bank and term deposits | 924 | 515 | 511 | - |
| Debtors and other receivables | 9,898 | 6,832 | 8,944 | 5,956 |
| Finance leases | 934 | 1,048 | - | - |
| Secured advances | - | 1,370 | - | - |
| **Total credit risk** | **11,756** | **9,765** | **9,455** | **5,956** |

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 2011** | | | | |
| Cash and cash equivalents | 924 | 924 | 924 | - |
| Debtors and other receivables | 9,898 | 9,898 | 9,898 | - |
| Finance leases | 934 | 1,229 | 214 | 1,015 |
| Total | 11,756 | 12,051 | 11,036 | 1,015 |
| **Parent Company 2011** | | | | |
| Cash and cash equivalents | 511 | 511 | 511 | - |
| Debtors and other receivables | 8,944 | 8,944 | 8,944 | - |
| Total | 9,455 | 9,455 | 9,455 | - |
| **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 | - |

**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 2011** | | | | |
| Creditors and other payables | (4,382) | (4,382) | (4,382) | - |
| Net settled derivative liabilities | (4,664) | (5,243) | (2,346) | (2,897) |
| Secured loans | (90,210) | (105,077) | (36,176) | (68,901) |
| Total | (99,256) | (114,702) | (42,904) | (71,798) |
| **Parent Company 2011** | | | | |
| Creditors and other payables | (3,754) | (3,754) | (3,754) | - |
| Net settled derivative liabilities | (3,820) | (4,304) | (1,912) | (2,392) |
| Secured loans | (65,460) | (77,611) | (21,794) | (55,817) |
| Total | (73,034) | (85,669) | (27,460) | (58,209) |
| **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) |

# 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 | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | -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 | - | (1,863) | - | 1,790 | - | (2,321) | - | 2,219 |
| Borrowings | 593 | - | (593) | - | 700 | - | (700) | - |
| **Total sensitivity to interest rate risk** | **593** | **(1,863)** | **(593)** | **1,790** | **700** | **(2,321)** | **(700)** | **2,219** |

| | -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 | - | (3,687) | - | 3,687 | - | (3,671) | - | 3,671 |
| **Total sensitivity to equity price risk** | **-** | **(3,687)** | **-** | **3,687** | **-** | **(3,671)** | **-** | **3,671** |

| Parent Company | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | -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 | - | (1,539) | - | 1,477 | - | (1,851) | - | 1,767 |
| Borrowings | 452 | - | (452) | - | 514 | - | (514) | - |
| **Total sensitivity to interest rate risk** | **452** | **(1,539)** | **(452)** | **1,477** | **514** | **(1,851)** | **(514)** | **1,767** |

| | -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 | - | (3,687) | - | 3,687 | - | (3,671) | - | 3,671 |
| **Total sensitivity to equity price risk** | **-** | **(3,687)** | **-** | **3,687** | **-** | **(3,671)** | **-** | **3,671** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 20. Reconciliation of consolidated operating cash flows

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 Restated | 2011 $000 | 2010 $000 |
| *The reconciliation between profit & the cash flow from operations is:* | | | | | |
| Profit for the period | | 9,400 | 12,378 | 16,294 | 6,344 |
| *Plus/(less) non cash items:* | | | | | |
| Unrealised net change in the value of investment property | | 5,178 | (3,198) | - | - |
| Depreciation and amortisation | | 7,330 | 7,006 | 7,158 | 6,837 |
| Interest on deferred settlement | | - | 158 | - | - |
| Movement in the fair value of interest rate swaps | | 553 | 1,537 | 433 | 1,082 |
| Movement in non-current employee entitlements | | 126 | (115) | 79 | (190) |
| Movement in deferred tax | | (317) | 1,502 | (261) | 2,218 |
| *Plus/(less) items classified as investing activities:* | | | | | |
| Loss/(gain) on sale of property, plant and equipment | | (23) | 112 | (383) | 112 |
| Loss/(gain) on disposal of investment property | | (1,714) | (1,283) | - | - |
| *Movement in working capital items:* | | | | | |
| Trade and other receivables | | (3,066) | (126) | (2,992) | (37) |
| Trade and other payables | | 346 | 62 | 158 | 138 |
| Current employee entitlements | | 380 | (485) | 354 | (523) |
| Income tax | | 3,471 | 258 | 2,400 | (215) |
| Inventories | | (27) | (72) | (27) | (72) |
| Movement in working capital items classified as investing activities | | (48) | (6) | - | - |
| Net cash flows from operating activities | | **21,589** | **17,728** | **23,213** | **15,694** |

## 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 (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) |
| Icon Logistics Limited | 50% | 30 June | Transport Services |

# 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 (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 2011 along with the share of trading for the relevant period.

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Current assets | | 1,756 | 1,675 | 206 | 201 |
| Non current assets | | 24,950 | 26,875 | 15 | 23 |
| Total assets | | 26,706 | 28,550 | 221 | 224 |
| Current liabilities | | (10,600) | (10,730) | (38) | (45) |
| Non current liabilities | | (3,024) | (3,143) | - | - |
| Total liabilities | | (13,624) | (13,873) | (38) | (45) |
| Net assets | | **13,082** | **14,677** | **183** | **179** |
| Income | | 999 | 1,111 | 961 | 969 |
| Expenses | | (3,632) | (5,151) | (828) | (801) |

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 commitments

At 30 June 2011 the Group had commitments/approvals for capital expenditure of $0.4 million (last year: $2.6 million) which relates to purchases of Port 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 | |
|---|---|---|---|---|---|
| | | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| **Rentals receivable** | | | | | |
| Within one year | | 14,188 | 12,628 | 2,189 | 2,587 |
| After one year but not more than five years | | 39,861 | 35,594 | 2,807 | 4,345 |
| More than five years | | 52,859 | 46,249 | 2,323 | 2,830 |
| **Minimum future lease receivable** | | **106,908** | **94,471** | **7,319** | **9,762** |

## 23. Contingent liabilities

Apart from the matters noted below, there are no contingent liabilities at 30 June 2011 (30 June 2010: 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 2011 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 2011 joint venture bank borrowings were $7.5 million (last year: $8 million) and the Group's 33.3% share, amounting to $2.5 million (last year: $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.

# 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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| • **Otago Regional Council** | | | | |
| Contribution towards operation of Harbour Control Centre | 60 | 60 | 60 | 60 |
| Property rental | 7 | 7 | 7 | 7 |
| Rates expense | (31) | (30) | (31) | (30) |
| Capital expense | (164) | (8) | (164) | (8) |
| Other expense | - | (5) | - | (5) |
| • **Chalmers Properties Limited** | | | | |
| Administration services provided | - | - | 205 | 200 |
| Sale of property, plant and equipment | - | - | 785 | - |
| Consultancy fees | - | - | - | (50) |
| Interest expense | - | - | (33) | (134) |
| Interest income | - | - | 1 | 7 |
| • **Fiordland Pilot Services Limited** | | | | |
| Interest income | - | - | - | 1 |
| • **Harbourcold Dunedin** | | | | |
| Property rental | - | - | 544 | 544 |
| Expenditure | - | - | (157) | (113) |

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 Group. In conjunction with the tax loss transfer of $7,000,000 (2010: $393,000), by way of a tax loss offset, the Group made a subvention payment of $3,000,000 (2010: $169,000) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $3,000,000 reduction in income tax payments in the current year (2010: $169,000).

Tax losses from Perpetual Property Limited are offset against the taxable income of Chalmers Properties Limited, both subsidiaries of the Company. A tax loss of $962,000 is to be offset for the 2011 year (2010: $374,000).

### (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 2011 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 July 2015).

### (c) Other related party transactions

| Director(s) | Related Party | Nature of Relationship |
|---|---|---|
| D J Faulkner | Director of Fulton Hogan Limited | Supplier to the Group |
| | Director of Gough Gough and Hamer Investments Limited (and its wholly owned subsidiaries) | Supplier to the Group |
| D R Black | Director of Farra Dunedin Engineering Limited | Supplier to the Group<br>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<br>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 |
| | Chairman of Southern Hospitality Limited | Supplier to the Group |

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

| | Group 2011 $000 | Group 2010 $000 | Parent Company 2011 $000 | Parent Company 2010 $000 |
|---|---|---|---|---|
| • **Farra Dunedin Engineering Limited** | | | | |
| Property rental | 38 | 36 | - | - |
| Maintenance expense | (60) | (58) | (60) | (58) |
| • **Fulton Hogan Group companies** | | | | |
| Property rental | 19 | 9 | 19 | 9 |
| Transport and warehouse revenue | - | 1 | - | 1 |
| Maintenance expense | (288) | (78) | (288) | (78) |
| Capital expenditure | - | (142) | - | (142) |
| • **Gough Gough and Hamer Investments Limited** (and it's wholly owned subsidiaries) | | | | |
| Maintenance expense | (291) | (95) | (291) | (95) |
| Capital expenditure | (228) | (1,093) | (228) | (1,093) |
| • **Kathmandu Holdings Limited** | | | | |
| Property rental | 165 | 98 | - | - |
| • **Key Business Partners Limited** | | | | |
| Consultancy services | - | (3) | - | (3) |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 24. Transactions with related parties (continued)

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

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| • **National Institute of Water and Atmospheric Research Limited** | | | | |
| Consultancy services | (4) | - | (4) | - |
| Capital expenditure | (122) | (20) | (122) | (20) |
| • **Southern Hospitality Limited** | | | | |
| Supplier of goods and services | (1) | (1) | (1) | (1) |

*Related party receivable/(payable) at year end:*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| • **Otago Regional Council** | | | | |
| Trade receivable | 17 | 19 | 17 | 19 |
| Accounts payable | (5) | (8) | (5) | (8) |
| • **HarbourCold Dunedin** | | | | |
| Accounts payable | - | - | (21) | (10) |
| • **Fulton Hogan Group Companies** | | | | |
| Trade receivable | 1 | 1 | 1 | 1 |
| • **Farra Dunedin Engineering Limited** | | | | |
| Trade receivable | - | 11 | - | - |
| • **Gough Gough and Hamer Investments Limited** (and it's wholly owned subsidiaries) | | | | |
| Accounts payable | (5) | - | (5) | - |
| • **National Institute of Water and Atmospheric Research Limited** | | | | |
| Accounts payable | (20) | - | (20) | - |

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 | |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Directors' fees | 369 | 371 | 277 | 272 |
| Salaries and other short-term employee benefits | 1,760 | 1,721 | 1,331 | 1,353 |
| | **2,129** | **2,092** | **1,608** | **1,625** |

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26. Dividends – Group and Parent Company

| | Notes | 2011 $000 | 2010 $000 |
|---|---|---|---|
| *Declared and proposed in respect of the current financial year:* | | | |
| Interim dividend | | 2,500 | 2,500 |
| Second interim dividend | | 2,600 | 2,600 |
| Special dividend | | 5,250 | - |
| Final dividend | | 1,900 | 1,900 |
| **Dividends for the financial year** | | **12,250** | **7,000** |
| *Adjust for dividends declared after year end:* | | | |
| 2011 Final dividend declared September 2011 | 28 | (1,900) | - |
| 2010 Final dividend declared September 2010 | | 1,900 | (1,900) |
| 2009 Final dividend declared September 2009 | | - | 1,900 |
| Dividend distributed to owners as disclosed in the Consolidated Statement of Changes in Equity | | 12,250 | 7,000 |
| Dividends per share (cents) | | 61.3 | 35.0 |

## 27. Operating leases - Group and Parent Company

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

| | Notes | 2011 $000 | 2010 $000 |
|---|---|---|---|
| Payable within one year | | 411 | 547 |
| Payable within one to two years | | - | 411 |
| Payable within two to five years | | - | - |
| | | **411** | **958** |

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 6 September 2011 the Directors declared a final dividend of $1.9 million for the year ended 30 June 2011. 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.

### Shares in listed companies

At balance date, the fair value of the investment in Lyttelton Port Company Limited was valued at the quoted selling price, being $2.33 per share. At the time of issue of the financial statements, the trading price of Lyttelton Port Company Limited shares was $2.00. This would reduce the carrying value of the investment to $31.65 million, a reduction of $5.22 million from the balance date fair value.

# AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

**Independent Auditor's Report**

**To the readers of**
**Port Otago Limited and group's**
**financial statements**
**for the year ended 30 June 2011**

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.

We have audited the financial statements of the company and group on pages 10 to 41, that comprise the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

## Opinion on the financial statements

In our opinion the financial statements of the company and group on pages 10 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the company and group's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date.

## Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 8 September 2011. This 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 our responsibilities, and explain our independence.

## Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the preparation of the company and group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company and group's financial position, financial performance and cash flows.

# AUDIT REPORT continued

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Port Companies Act 1988.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our 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
Christchurch, 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 (the company) for the year ended 30 June 2011 included on the company's website. The Board of Directors is responsible for the maintenance and integrity of the company's website. We have not been engaged to report on the integrity of the company'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 these 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 8 September 2011 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 2011.

### 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 $9.4 million, compared to $12.4 million (restated) last year.

### Dividends
A final dividend of $1.9 million will be paid on 6 September 2011, which brings total dividends for the year to $12.25 million.

### Changes in accounting policies
There have been no changes in accounting policies during the year, except as disclosed in note 2 of the Notes to the Financial Statements.

### 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 8 December 2010, Mr E G Johnson retired by rotation and was reappointed. Mr J W Gilks retired as a director and did not seek re-election.

### 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 |
|---|---|---|---|
| D J Faulkner (Chairman) | 44 | 15 | 59 |
| D R Black (Deputy Chairman) | 33 | 14 | 47 |
| J W Gilks [R] | 76 | 8 | 84 |
| E J Harvey | 32 | 11 | 43 |
| E G Johnson | 31 | 11 | 42 |
| D Rillstone | 32 | 14 | 46 |
| V H Pooch | 29 | 19 | 48 |
| | **277** | **92** | **369** |

[R] Retired during the year

# STATUTORY DISCLOSURE continued

## Directors interests

Directors have disclosed the following general interests for the year ended 30 June 2011 in accordance with Section 140 of the Companies Act 1993:

| Director | Entity | Relationship |
|---|---|---|
| D J Faulkner | Brightwater Group Limited | Director |
| | Gough Gough and Hamer (and its wholly owned subsidiaries) | Director |
| | Environmental Protection Authority | Director |
| | Fulton Hogan Limited (and its wholly owned subsidiaries) (resigned December 2010) | Director |
| 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 |
| E J Harvey | APN News and Media Limited | Director |
| | DNZ Property Fund Limited | Director |
| | Kathmandu Holdings Limited | Director |
| | Heartland Building Society | 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 Group 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 |
| V H Pooch | Key Business Partners Limited | Director |
| | Southern Hospitality Limited | Chairman |
| | Goom Landscapes Limited | Chairman |
| | Number Power Limited | Director |
| | Inframax Construction Limited | Director |
| D Rillstone | Crosshill Farm 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 |
|---|---|
| 420,001 – 430,000 | 1 |
| 370,001 – 380,000 | 1 |
| 230,001 – 240,000 | 1 |
| 210,001 – 220,000 | 1 |
| 200,001 – 210,000 | 1 |
| 190,001 – 200,000 | 1 |
| 180,001 – 190,000 | 1 |
| 170,001 – 180,000 | 4 |
| 160,001 – 170,000 | 2 |
| 150,001 – 160,000 | 2 |
| 140,001 – 150,000 | 1 |
| 130,001 – 140,000 | 2 |
| 120,001 – 130,000 | 3 |
| 110,001 – 120,000 | 2 |
| 100,001 – 110,000 | 10 |

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

### 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 2011, or retired during the year - as indicated with an (R):

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

### 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 2011 was $94,400 (last year: $94,400).

For and on behalf of the Board of Directors

D J Faulkner
Chairman
6 September 2011

E J Harvey
Director
6 September 2011

# DIRECTORY

**Directors**

| | |
|---|---|
| David Faulkner | Chairman |
| Ross Black | Deputy Chairman |
| John Harvey | Chairman Audit Committee |
| 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 |

**Address**

15 Beach Street
PO Box 8
Port Chalmers

| | |
|---|---|
| Phone | (03) 472-7890 |
| Facsimile | (03) 472-7891 |
| Email | pol@portotago.co.nz |
| Website | www.portotago.co.nz |

**Bankers**

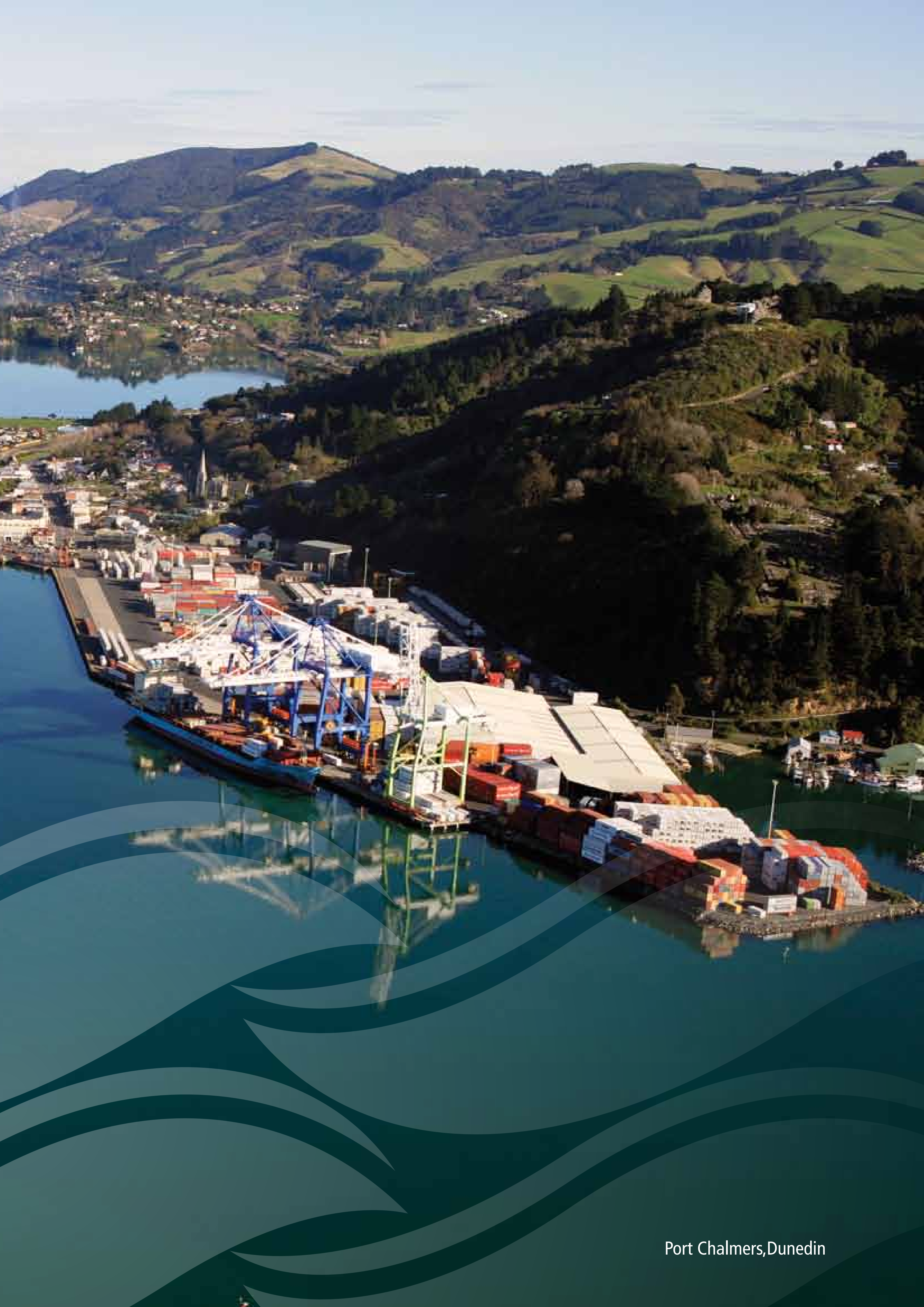
ANZ National Bank Limited

**Solicitors**

Anderson Lloyd

**Auditors**

Audit New Zealand on behalf of the Auditor-General



Port Chalmers,Dunedin

PORT
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LIMITED

www.portotago.co.nz