PORT OTAGO LIMITED

www.portotago.co.nz

Annual Report 2012

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OVERVIEW OF GROUP RESULTS

	2012 $million	2011 $million
Revenue	70.4	76.0
Operating profit before income tax	16.7	19.8
Profit for the year	12.6	9.4
Total assets	397.1	401.9
Shareholders equity	272.3	276.4
Equity ratio	69%	69%
Net asset backing per share	$13.62	$13.82

Trade

	2012	2011
Container throughput (TEU)	172,000	221,000
Conventional cargo volume (000 tonnes)	1,271	1,412
Number of vessel arrivals	524	505

FIVE YEAR SUMMARY

Trade analysis	2012	2011	2010	2009	2008
Number of ships	524	505	502	589	551
Cargo throughput (000's tonnes)	3,532	3,623	3,284	3,034	3,052

Financial comparisons	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000
Revenue #	70,148	74,213	70,295	67,177	62,564
EBITDA from operations #	29,692	32,442	30,293	28,719	26,494
Surplus from operations (EBIT)					
Port operations	11,736	15,991	13,625	12,994	14,612
Investment property	10,561	10,871	10,468	7,617	7,408
Total group EBIT	22,297	26,862	24,093	20,611	22,020
Unrealised net change in value of investment property	2,361	(5,178)	3,198	5,430	17,915
Profit for the year	12,599	9,400	12,378	15,877	27,788
Dividends for financial year *	11,750	12,250	7,000	6,900	9,400
Shareholders equity	272,340	276,444	278,446	271,472	266,315
Total assets					
Port operations	191,596	201,808	198,284	202,177	203,090
Investment property	205,548	200,076	209,638	206,723	198,409
Total group	397,144	401,884	407,922	408,900	401,499
Shareholders equity	69%	69%	68%	66%	66%
Net asset backing per share	$13.62	$13.82	$13.92	$13.57	$13.32
Earnings per share (cents)	63.0	47.0	61.9	73.0	138.9
Dividends per share (cents)*	58.8	61.3	35.0	34.5	47.0
Return on equity**					
before unrealised revaluations	3.7%	5.3%	4.0%	3.4%	3.8%
after unrealised revaluations	4.6%	3.4%	5.2%	5.4%	10.7%
EBIT return on assets					
Port operations	6.0%	6.9%	6.9%	6.6%	7.1%
Investment property	5.2%	4.9%	5.0%	3.7%	3.8%
Total group	5.6%	5.9%	5.9%	5.1%	5.5%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 26.
** Profit, divided by average shareholders equity.
\# Excludes gain on disposal.

CHAIRMAN'S REVIEW

Financial results overview

The Port Otago Group consists of its port operations activity and a property investment business that trades as Chalmers Properties Limited. The Group also holds a 15.5% shareholding in Lyttelton Port Company Limited.

The Port Otago Group achieved an after tax profit for the year of $12.6 million which is an increase of 34% on the $9.4 million achieved in the previous year.

The Group operating revenue was down 5% from the previous year to $70.1 million. This was due to lower container and conventional cargo volumes handled through the port, and the decision of the Lyttelton Port Company to suspend dividend payments while that port finalises its rebuilding plans after the earthquakes. The above items were offset, in part, by an increase in rental income from Chalmers Properties' investment property portfolio.

The operating profit before tax of $16.7 was 16% below the previous year's result of $19.8 million. This was in the main due to $0.9 million of restructuring costs in the current year, a $1.8 million one-off gain from disposal of property included in last year's result and the suspension of the LPC dividend (last year: $0.5 million).

Non-operating income and expenses included an increase of $2.4 million in the value of CPL's investment property compared with a $5.2 million decrease in the previous year.

Dividend

Dividends paid or declared for the year ended 30 June 2012 totalled $11.75 million which includes a special dividend of $4.75 million (last year: $5.25 million) and ordinary dividends of $7.0 million (last year: $7.0 million).

Trade

The port handled 3.5 million tonnes of cargo during the year which was a reduction of 3% on last year's record tonnage.

The key container terminal throughput was down 23% to 172,000 TEU (twenty foot equivalent units) compared to the previous year. As reported last year, shipping line changes that were effective from September 2011 have seen a significant reduction in tranship cargo consolidated at Port Chalmers.

Conventional cargo volumes reduced by 10% to 1.3 million tonnes (last year: 1.4 million tonnes) with a reduction in fertiliser and log exports.

Port infrastructure

The Board is focused on ensuring that the port's infrastructure is modern, up to date and well-maintained so that Port Otago operates efficiently and is well positioned to make the necessary investment that would be required to handle increasing cargo

CHAIRMAN'S REVIEW continued

volumes and larger vessels that may arrive at some future time.

The Next Generation project remains a key part of this strategy by ensuring that Port Otago has the necessary resource consents which would be required for future development.

The resource consents to deepen the shipping channel to Port Chalmers and to extend the wharf are in place, but the monitoring conditions for the new dredging disposal site located 6.5 kilometres off-shore from Taiaroa Head is subject to an appeal to the Environment Court which will be heard in November 2012.

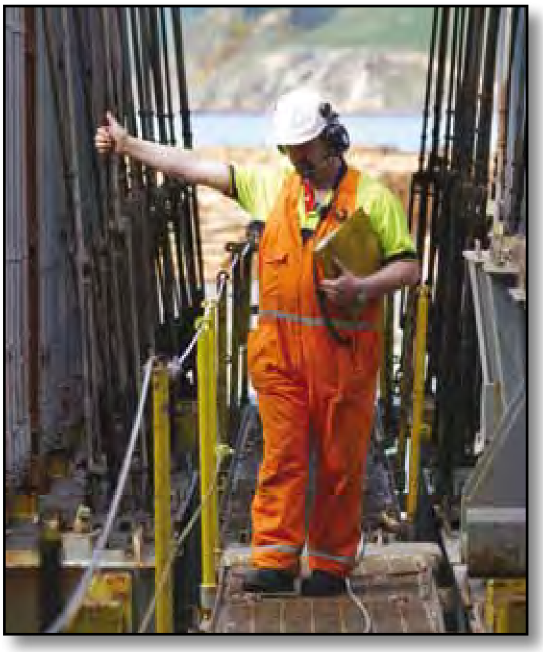
With a modern, up to date land side infrastructure and with the completion of the resource consent process, Port Otago will be very well-placed compared with other South Island ports to quickly and cost effectively respond to changing customer requirements and expectations.

Health and Safety

The Board is committed to protecting staff at work through a Zero Harm Strategy. Progress is being made with a reduction in reported incidents and lost time accidents. The Lost Time Injury Frequency rate of 9.0 (per million hours worked) has reduced from 11.8 recorded in the previous year and further improvements in all measures of safety management will be required.

Staff

Port Otago differentiates itself by delivering superior customer service in a safe working environment through the ongoing commitment of our staff which ensures that these objectives are achieved.



On behalf of the Board I thank all staff for their dedication throughout the past year which has seen improvements to both productivity and health and safety.

Environment and community

The Port Environment Liaison Committee remains an important forum to meet with the local community and to discuss matters of mutual interest. The forum covers a range of matters of interest to the community including noise, landscaping and transport related issues.

The Board greatly appreciates the time and the effort that the local community representatives put into the Committee's activities.

This committee has been chaired since 2001 by Dougal Rillstone until his retirement as a Port Otago Director in June 2012. I thank Dougal for the excellent work that he has done with the Committee and the excellent rapport he established with the Port Chalmers Community.

Shareholding in Lyttelton Port Company Limited (LPC)

The Company has maintained its 15.5% stake in LPC.

In accordance with accounting standards the investment has been valued at the NZX market price, at 30 June 2012 of $2.00 per share. This has resulted in a $5.2 million write-down in value of this investment.

CHAIRMAN'S REVIEW continued

Chalmers Properties (CPL)

The value of the investment property in CPL's property portfolio increased to $201 million from $198 million, reversing last year's decrease in values. Operating EBITDA increased by 18% to $11 million.

During the year the Wellington office of CPL was closed and relocated to Dunedin. This relocation resulted in the CPL Chief Executive position being disestablished.

On behalf of the Board I thank the CPL Chief Executive, Andrew Duncan, for his contribution to the acquisition and development of the property portfolio now held by CPL.

Development work is soon to commence on the undeveloped property in Hamilton which the Company holds through various joint ventures. The Board remains confident that the properties will yield significant returns when developed and sold as they are located in an area of Hamilton which is seeing sustained positive growth.

Directors

Dougal Rillstone retired from the Board in June 2012 following a 14 year involvement with the Company including the role as Chairman of the Port Environment Liaison Committee since 2001.

On behalf of the Board I would like to thank Dougal for his contribution to the company and Port Environment Liaison Committee.

Paul Rea was appointed to the Board in December 2011. Paul's international experience with Mobil Oil over 35 years in many senior roles will greatly add to the Boards mix of skills.

Outlook

Worldwide, the number of containers being moved has decreased as a result of the economic situation in Europe. This trend has not occurred in the South Island container trade and, while over the past year our container volume decreased due to shipping line changes, we expect further recent changes by the same lines will, in the short term, increase the number of movements through Port Chalmers.

In the longer term we are well-positioned to handle increased volumes and with the resource consents we are currently finalising, we are very well-placed to respond to customers' changing requirements.

At some time in the future, larger container ships will inevitably arrive on the New Zealand coast and Port Otago will be able to economically deepen the existing channel to meet this demand.

Our property investment activity has an excellent portfolio of rental properties and this along with the development of land owned in Hamilton will provide a diversified base for Port Otago in the years ahead.

For and on behalf of the Board

David Faulkner
Chairman

CHIEF EXECUTIVE'S REVIEW

It is pleasing to report a profit of $12.6 million for the 2012 year.

2012 was a year of consolidation for the port operating business. The port operating profit was lower as a result of a reduction in the number of containers transhipped through Port Otago and lower tonnage of non-containerised or bulk products. Other port activities, including the cruise vessel sector, warehousing, cold store and transport businesses had high levels of activity. Improvements in the safety performance were achieved across the business. Chalmers Properties enjoyed a successful year with high levels of occupancy, a lift in rental income and an increase in the overall value of the investment property portfolio.

With the average size of container and cruise vessels continuing to increase, Port Otago will need to continue to develop and adapt in order to meet the changing requirements of our customers. Excellent progress was achieved with the Next Generation consenting project and further upgrades are underway to ensure that the port infrastructure is appropriate for delivering outstanding customer service.

Safety

Our safety performance continues to improve. The number of reported incidents was down by 40% and there were similar improvements in the number of medical treatment incidents and lost time accidents (LTIs).

Port Otago continues to strive for a Zero Harm workplace and further improvements in the safety performance is targeted for the coming year.

At Port Otago we have developed a network of Health and Safety committees which is helping to improve our health and safety performance. I would like to acknowledge and thank all of the members of the various committees for helping to make Port Otago a safer place to work.

Staff

I would like to acknowledge the contribution and commitment of all staff as we continue to strive to improve our safety performance and to deliver outstanding customer service.

Trade

2012 was a year of change within the port operating business as the container terminal adjusted to a lower container volume. The container throughput for the year was 172,000 TEU, a reduction of 23% from the previous year. The reduction was entirely due to the end of the tranship business when shipping schedules changed in July 2011 to include extra New Zealand ports. Rather than consolidating containers at Port Otago, Maersk Line changed its model to lift containers directly from the ports where the cargo originated.

Direct exports and imports, which is cargo coming directly from Port Otago's direct hinterland, increased by 2%.

CHIEF EXECUTIVE'S REVIEW continued

Following the loss of the transhipment business, a review of operations was undertaken to ensure that staffing levels were appropriate for the lower level of trade. This resulted in a reduction of 17 staff positions.

CMA CGM's new North Asia service started in August 2011. Since this date OOCL have joined CMA CGM on the service. The new service was a welcome addition to shipping services available from Port Otago as it provides a direct service to growing North Asian markets.

Since the end of the financial year Maersk Line and Hamburg Sud have announced plans to discontinue their Timaru port call. This will bring additional cargo volume to Port Otago over the coming year.

A significant increase in productivity has been achieved within container operations during the year. Net container crane productivity has improved from 27.5 lifts per container hour at the start of the year to 33.0 lifts by year end. This represents an improvement of 20% and it reflects a significant focus from within container operations to improve productivity and customer service. This level of productivity puts Port Otago in the top quartile of NZ port operations.

Conventional cargo was 10% lower at 1.3 million tonnes. While the tonnage is down from last year's record it does represent the second highest tonnage handled by the port in any one year. Log exports were down by 10%, from the last year's record volume and there was also a reduction in fertiliser imports and exports.

There were 524 vessel arrivals during the year, an increase of 19 from the previous year.

A record 83 cruise vessels visited the port over the 2011/12 season. While the number of cruise vessels is expected to remain the same for the coming season the increasing size of cruise ship vessels will result in an increase of 15% in the passenger numbers visiting Dunedin. Fiordland Pilot Services, a 100% subsidiary of Port Otago, enjoyed a successful season with a 35% increase in the number of vessels piloted in Fiordland and the Stewart Island pilotage areas. A further pilot completed his training this season. With three fully trained senior pilots, the Company is well placed to take advantage of any extra piloting opportunities.

CHIEF EXECUTIVE'S REVIEW continued

Icon Logistics Limited, a business which was formed on 1 July 2011 from the merger of South Freight's transport operation with Harbour Logistics (a Dynes Transport Group Company) has enjoyed a successful first year of operation. The merger gives a fully integrated transport and storage business which is able to provide better service from an increased scale of operations.

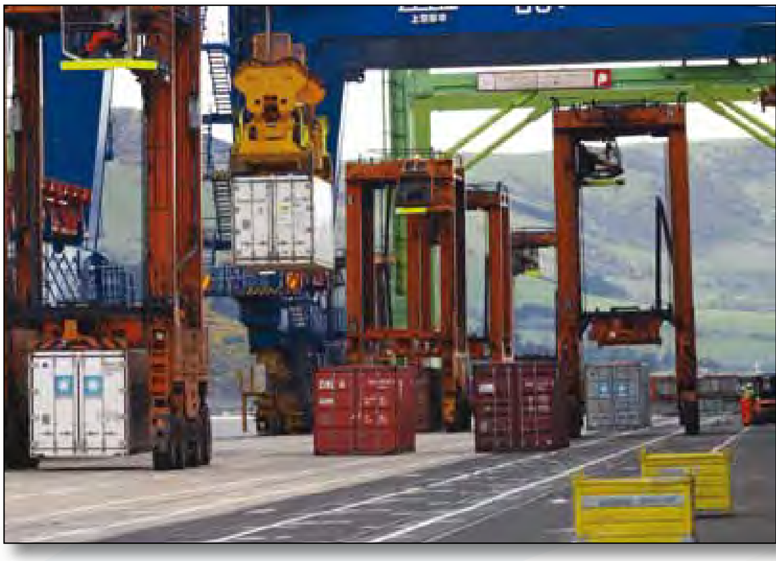
Financial results

This year's financial performance was impacted by the lower container and conventional cargo volumes and by the cost of the restructuring which was completed in the first half of the financial year.

Port group operations revenue was down by 8% to $57.6 million. Earnings before interest, tax, depreciation and amortisation (EBITDA) were down by 14% to $19.9 million.

Infrastructure

Capital expenditure for the year was $4.3 million. Two key projects were approved during the year and are currently underway. A $3 million upgrade of the oil wharf commenced in February and is expected to be completed in December 2012. The second project is the replacement of the container crane rail on the main container berth. This project, at a cost of $1.8 million, is expected to be completed in early November in time for the start of the main export season and the new cruise vessel season.



Next Generation project

Good progress is being made in finalising the consents to deepen the shipping channel to Port Chalmers and to extend the George St No 2 container wharf. The consents, which were granted during the 2011 year, were appealed by a number of parties. The appeals relating to the channel deepening and the wharf extension have been settled which means that these consents have been finalised. The only outstanding appeals are associated with the monitoring conditions for the new disposal site, known as A0, which is 6.5 kilometres offshore from Taiaroa Head. Appeals from commercial fishing interests and the East Otago Taiapure Committee seek to impose more stringent monitoring conditions than were contained within the original consent. It is our view that the additional monitoring is not required. This matter will be subject to an Environment Court Hearing commencing in November 2012.

To date it has cost $3.7 million and taken 5 years to reach this stage. Securing the consents will give the surety required to plan for the future and it will provide the Board and management with the ability to proceed with development of the port in line with commercial demand and in a time frame which can be co-ordinated with customers.

CHIEF EXECUTIVE'S REVIEW continued

The harbour dredging consents are in place which will enable the shipping channel to be deepened from the current 13 metres chart datum to 15 metres chart datum. The consents are for a maximum term of 25 years. It is likely that for the foreseeable future there will be no requirement to deepen beyond a 14 metre depth. Port Otago will be able to deepen to this depth by using its own dredge, the New Era. Current estimates are that the cost of deepening will be in the $12 to $15 million range which would be the lowest of any NZ port to achieve a 14 metre chart datum draft.

Environmental

Excellent progress continues to be made on the acoustic treatment programme. Work on all of the houses within the red zone, which is the area most affected by port activities, has been completed. There are two properties which are not able to be acoustically treated and Port Otago will, at a time to be determined by the owner, be required to purchase these properties.

A total of $1.2 million has been spent over the past eight years on acoustic treatment of properties located close to the port.

Port Otago continues to actively monitor and where possible manage noise from port operations. With the lower container throughput and a change in the shipping profile to vessels emitting less noise, the overall noise profile has reduced.

Chalmers Properties (CPL)

CPL enjoyed a successful year with higher rental income and improved earnings. Rental income increased by 10% to $12.6 million and earnings before interest and tax (EBIT) was 15% higher at $10.6 million.

The annual revaluation of the property portfolio at 30 June 2012 resulted in a $2.4 million increase in the value of the property portfolio to $201 million. This is a positive result which reflects a gradual improvement in the property market.

Significant progress has been made over recent months with the planning for the development of the Hamilton land, which is owned through a number of joint ventures. Road construction will commence during the 2012/13 summer period and the first stage of the subdivision should come to the market later in 2013.

CHIEF EXECUTIVE'S REVIEW continued

Outlook

The combination of port operations and property investment continues to provide a diversified income stream and it gives the business underlying financial strength. Additional container volume can be expected in the coming year following Maersk Line and Hamburg Sud's announcement that they are discontinuing their Timaru port call.

A combination of top quality port infrastructure, strategic location within the key exporting regions of Otago, Southland and South Canterbury and high container terminal productivity means that the Company is well placed to take the opportunities from growth in cargo volumes. In addition, completion of the resource consent process will give Port Otago the flexibility required to develop the port in order to handle future trade opportunities.

No significant changes are expected to the Chalmers Properties portfolio over the coming year. The focus will continue to be on progressing the development of the Hamilton property.

Geoff Plunket
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	172,000 TEU[Ø]	198,000 TEU[Ø]	Target not achieved
Conventional cargo throughput	1.271 million tonnes	1.300 million tonnes	Target not achieved
Number of vessel arrivals	524 vessels	500 vessels	Target achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Nil breaches of resource consent conditions	Nil breaches of resource consent conditions	Target achieved
Health & Safety			
Frequency rate (lost time accidents per 100,000 work hours)	0.90	0.50	Target not achieved

Financial performance

	Port Otago Group Actual	Port Otago Group Target	
EBIT* return on assets	5.6%	6.1%	Target not achieved
Return on shareholders funds	3.7%	4.8%	Target not achieved
Equity ratio	69%	69%	Target achieved
Debt servicing ratio (times)	3.6	3.5	Target achieved

[Ø]TEU = twenty foot equivalent units
*EBIT = Earnings before interest and taxation

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2012

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Revenue					
Port operations		57,594	62,390	57,314	62,194
Investment property rental		12,554	11,364	-	-
Dividend income		-	459	8,850	9,609
Gain on disposal		225	1,750	225	395
Total revenue		**70,373**	**75,963**	**66,389**	**72,198**
Expenses	3				
Staff costs		(24,283)	(25,868)	(23,614)	(24,972)
Restructuring costs		(857)	-	(582)	-
Fuel and electricity		(3,361)	(3,227)	(3,244)	(3,126)
Purchased materials and services		(11,955)	(12,675)	(11,134)	(11,622)
Depreciation and amortisation		(7,620)	(7,330)	(7,411)	(7,158)
		(48,076)	(49,100)	(45,985)	(46,878)
Borrowing costs					
Interest income		289	290	3	64
Interest expense		(5,919)	(7,355)	(4,674)	(5,839)
	4	(5,630)	(7,065)	(4,671)	(5,775)
Operating profit before income tax		**16,667**	**19,798**	**15,733**	**19,545**
Non-operating income and expenses					
Merger investigation costs		-	(76)	-	(76)
Subvention payment		(5,038)	(3,000)	(2,995)	(2,207)
Unrealised net change in the value of investment property	10	2,361	(5,178)	-	-
Unrealised net change in value of interest rate swaps		(771)	(553)	(200)	(433)
		(3,448)	(8,807)	(3,195)	(2,716)
Profit before income tax		**13,219**	**10,991**	**12,538**	**16,829**
Income tax expense	5a	(620)	(1,591)	1,166	(535)
Profit for the year		**12,599**	**9,400**	**13,704**	**16,294**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Profit for the year		12,599	9,400	13,704	16,294
Other comprehensive income					
Available-for-sale financial assets					
Share of profit from associates	18b	190	-	190	-
Unrealised increase/(decrease) in the value of share investments	18b	(5,222)	158	(5,222)	158
Cash flow hedges					
Unrealised movement in hedging interest rate swaps (net of tax)	18c	79	690	(346)	471
Total comprehensive income for the year		**7,646**	**10,248**	**8,326**	**16,923**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Equity at the beginning of the year		276,444	278,446	114,565	109,892
Total comprehensive income for the year		7,646	10,248	8,326	16,923
Distribution to owners					
Dividend paid	26	(11,750)	(12,250)	(11,750)	(12,250)
Equity at the end of the year		**272,340**	**276,444**	**111,141**	**114,565**

The accompanying notes form part of these financial statements

CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Current assets					
Cash and cash equivalents		679	924	235	511
Trade and other receivables	6	8,914	9,898	6,752	8,944
Secured advances	8	1,500	-	-	-
Inventories		646	584	646	584
Finance leases	7	139	126	-	-
		11,878	11,532	7,633	10,039
Non-current assets					
Property, plant and equipment	9	147,334	153,931	147,231	153,791
Investment property	10	199,297	196,502	-	-
Property held for sale	11	1,420	1,420	-	-
Investment in associates	19	875	-	875	-
Shares in listed companies	19	31,649	36,871	31,649	36,871
Investment in subsidiaries		-	-	7,000	7,000
Finance leases	7	669	808	-	-
Intangible assets	12	4,022	820	3,990	757
		385,266	390,352	190,745	198,419
Total assets		**397,144**	**401,884**	**198,378**	**208,458**
Current liabilities					
Trade and other payables	13	4,033	4,382	3,363	3,754
Borrowings (secured)	15	2,500	10,500	-	-
Employee entitlements	14	3,503	4,126	3,503	3,979
Derivative financial instruments	19	1,864	1,985	1,527	1,607
Income tax		3,297	5,073	2,276	3,010
		15,197	26,066	10,669	12,350
Non-current liabilities					
Borrowings (secured)	15	88,300	79,710	60,300	65,460
Employee entitlements	14	1,402	1,459	907	937
Derivative financial instruments	19	3,462	2,679	2,975	2,213
Deferred tax liabilities	5c	16,443	15,526	12,386	12,933
		109,607	99,374	76,568	81,543
Total liabilities		124,804	125,440	87,237	93,893
Equity					
Share capital	17	20,000	20,000	20,000	20,000
Reserves	18	252,340	256,444	91,141	94,565
Total equity		272,340	276,444	111,141	114,565
Total equity and liabilities		**397,144**	**401,884**	**198,378**	**208,458**

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 2012

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from port operations		60,105	59,357	59,802	59,168
Rental income		11,425	11,291	-	-
Dividends received		-	459	8,850	9,609
Interest received		289	290	3	64
Cash was disbursed to:					
Payments to employees and suppliers		(41,587)	(41,445)	(39,547)	(39,511)
Net GST received / (paid)		(132)	352	(143)	264
Interest paid		(5,950)	(7,277)	(4,699)	(5,778)
Subvention payments		(5,038)	(3,000)	(2,995)	(2,207)
Income tax paid		(1,511)	1,562	20	1,604
Net cash flows from operating activities	20	**17,601**	**21,589**	**21,291**	**23,213**
Cash flows from investing activities					
Cash was provided from:					
Sale of property, plant and equipment		428	476	428	832
Sale of investment property		-	5,207	-	-
Repayment of lessee improvements		126	114	-	-
Cash was applied to:					
Purchase of property, plant and equipment		(4,284)	(7,382)	(4,290)	(7,345)
Investments in associates		(875)	-	(875)	-
Advances received / (repaid)		(1,500)	1,370	80	-
Interest capitalised	4	(497)	(529)	-	-
Purchase of investment property		(9)	(55)	-	-
Improvements to investment property		(75)	(224)	-	-
Net cash flows from (to) investing activities		**(6,686)**	**(1,023)**	**(4,657)**	**(6,513)**
Cash flows from financing activities					
Cash was provided from:					
Proceeds from borrowings		33,290	10,830	2,940	10,530
Cash was applied to:					
Repayment of borrowings		(32,700)	(18,737)	(8,100)	(14,200)
Dividends paid	26	(11,750)	(12,250)	(11,750)	(12,250)
Net cash flows from (to) financing activities		**(11,160)**	**(20,157)**	**(16,910)**	**(15,920)**
Increase (decrease) in cash held		**(245)**	**409**	**(276)**	**780**
Cash held at beginning of period		924	515	511	(269)
Cash held at end of period		**679**	**924**	**235**	**511**

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, associates 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, associates 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 2012. The financial statements were authorised for issue by the Board on 4 September 2012.

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 2012) 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.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

(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 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. For resource consents the amortisation periods range from 10 to 25 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. Investments in associates are recognised as available for sale financial assets and as such are recognised at fair value.

(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

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 2015);
- IFRS 10 Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 11 Joint Arrangements (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 12 Disclosures of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 13 Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013);
- Amendments to NZ IAS 19 Employee Benefits (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 $48 million for the Group (Parent: $46 million) include the following:

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Auditors' remuneration					
Audit services – Audit New Zealand		98	94	70	65
Audit services – PricewaterhouseCoopers		4	4	-	-
Total auditors' remuneration		**102**	**98**	**70**	**65**
Bad and doubtful debts					
Bad debts recovered		-	(4)	-	(4)
Bad debts written off		42	1	42	-
Total bad and doubtful debts		**42**	**(3)**	**42**	**(4)**
Directors' remuneration		317	369	227	277
Defined contribution plan employer contributions		1,082	1,057	1,078	1,047
Donations and community sponsorship		33	57	33	57
Loss on disposal of assets		2	12	2	12
Operating leases		1,087	1,306	1,039	1,264
Depreciation and amortisation					
Depreciation of property, plant and equipment	9	7,095	6,894	7,064	6,858
Amortisation of intangibles	12	379	332	347	300
Amortised leasing costs		146	104	-	-
Total depreciation and amortisation		**7,620**	**7,330**	**7,411**	**7,158**

4. Borrowing costs

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Interest income		289	290	3	64
Interest expense and bank facility fees		(6,416)	(7,884)	(4,674)	(5,839)
Interest capitalised	16	497	529	-	-
		(5,630)	**(7,065)**	**(4,671)**	**(5,775)**

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	
		2012 $000	2011 $000	2012 $000	2011 $000
Profit before tax		**13,219**	**10,991**	**12,538**	**16,829**
Imputation credits		-	197	-	197
		13,219	11,188	12,538	17,026
Prima facie tax expense at 28% (2011: 30%)		(3,701)	(3,356)	(3,511)	(5,108)
Non-deductible items		(1,985)	(1,939)	(1,244)	(864)
Non-assessable income		-	514	2,479	2,745
Unrealised change in investment property		898	(549)	-	-
Tax loss offset (via subvention payment)		5,038	3,000	2,995	2,207
Prior year adjustment		45	226	35	26
Deferred tax expense relating to the origination and reversal of temporary differences		(915)	316	412	262
Benefit of imputation credits		-	197	-	197
Income tax expense		**(620)**	**(1,591)**	**1,166**	**(535)**
Allocated between:					
Current tax		(4,816)	(5,133)	(2,276)	(3,030)
Prior period adjustments to current tax		5,083	3,226	3,030	2,233
Deferred tax		(887)	316	412	262

b) The movements in the imputation credit account are:

	Notes	Group	
		2012 $000	2011 $000
Balance at beginning of the year		17,551	24,159
Attached to dividends received		-	197
Taxation paid (refunded)		1,531	(1,623)
Attached to dividends paid		(4,569)	(5,250)
Prior year adjustment		61	68
Imputation credits available for use in subsequent periods		**14,574**	**17,551**

Port Otago Limited is part of a consolidated tax group including its subsidiary, Chalmers Properties Limited.

No adjustment has been made for credits associated with tax payable due to the uncertainty regarding loss transfers.

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes (continued)

c) 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 2011		15,736	2,739	(1,301)	(1,648)	15,526
Charged / (credited) to hedging reserve direct to equity		-	-	30	-	30
Charged / (credited) to income statement		(366)	1,441	(215)	27	887
Balance at 30 June 2012		**15,370**	**4,180**	**(1,486)**	**(1,621)**	**16,443**
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**

Parent Company	Notes	Property, Plant and Equipment $000	Investment Property $000	Financial Instruments $000	Other $000	Total $000
Balance 1 July 2011		15,736	-	(1,069)	(1,734)	12,933
Charged / (credited) to hedging reserve direct to equity		-	-	(135)	-	(135)
Charged / (credited) to income statement		(366)	-	(56)	10	(412)
Balance at 30 June 2012		**15,370**	**-**	**(1,260)**	**(1,724)**	**12,386**
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**

NOTES TO THE FINANCIAL STATEMENTS continued

6. Trade and other receivables

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Trade receivables		8,362	9,552	6,203	8,501
Amount owing by subsidiaries and related parties		-	-	60	141
Prepayments		552	346	489	302
Balance at end of year		**8,914**	**9,898**	**6,752**	**8,944**

7. Finance leases

	Notes	Minimum Future Lease Payments Group		Present Value of Minimum Future Lease Receivables Group	
		2012 $000	2011 $000	2012 $000	2011 $000
Repayments due:					
No later than 1 year		214	214	139	126
Later than 1 year and not later than 5 years		801	855	669	653
Later than 5 years		-	160	-	155
Minimum future lease payments		1,015	1,229	808	934
Gross finance lease receivables		1,015	1,229	808	934
Less unearned finance income		(207)	(295)	-	-
Present value of minimum lease payments		**808**	**934**	**808**	**934**
Included in the financial statements as:					
Current				139	126
Non-current				669	808
				808	934

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

8. Secured advances

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Balance at beginning of the year		-	1,370	-	-
Secured advances provided		1,500	-	-	-
Secured advances repaid		-	(1,370)	-	-
Balance at end of year		**1,500**	**-**	**-**	**-**

During the year, Chalmers Properties Limited provided a $3,000,000 secured advance (Group share: $1,500,000) to The Hamilton Joint Venture. Interest is payable by the borrower on a monthly basis, with the current rate of interest being 6.73%. Security for the advance is a general security agreement and registered mortgages over land.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, plant and equipment

Group

Current period to 30 June 2012

	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 2011	33,992	37,257	49,355	79,469	3,642	203,715
Additions	-	429	459	917	4,107	5,912
Disposals	-	(4)	-	(796)	-	(800)
Transfers	-	-	-	-	(5,210)	(5,210)
Cost at 30 June 2012	33,992	37,682	49,814	79,590	2,539	203,617
Accumulated depreciation						
Balance 1 July 2011	-	8,001	9,406	32,377	-	49,784
Depreciation for period	-	1,349	1,405	4,341	-	7,095
Disposals	-	(4)	-	(592)	-	(596)
Depreciation at 30 June 2012	-	9,346	10,811	36,126	-	56,283
Net book value						
At 30 June 2011	33,992	29,256	39,949	47,092	3,642	153,931
At 30 June 2012	**33,992**	**28,336**	**39,003**	**43,464**	**2,539**	**147,334**

Comparative 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**

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, plant and equipment (continued)

Parent Company

Current period to 30 June 2012

	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 2011	33,992	37,257	49,355	79,158	3,639	203,401
Additions	-	429	459	912	4,107	5,907
Disposals	-	(4)	-	(726)	-	(730)
Transfers	-	-	-	-	(5,209)	(5,209)
Cost at 30 June 2012	33,992	37,682	49,814	79,344	2,537	203,369
Accumulated depreciation						
Balance 1 July 2011	-	8,001	9,406	32,203	-	49,610
Depreciation for period	-	1,349	1,405	4,310	-	7,064
Disposals	-	(4)	-	(532)	-	(536)
Depreciation at 30 June 2012	-	9,346	10,811	35,981	-	56,138
Net book value						
At 30 June 2011	33,992	29,256	39,949	46,955	3,639	153,791
At 30 June 2012	**33,992**	**28,336**	**39,003**	**46,363**	**2,537**	**147,231**

Comparative 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**

NOTES TO THE FINANCIAL STATEMENTS continued

10. Investment property

	Notes	Group	
		2012 $000	2011 $000
Balance at beginning of year		196,502	204,421
Property purchased		-	420
Property improvements during the period		66	120
Net movement in prepaid leasing costs		(129)	(1)
Interest capitalised	16	497	529
Transfer from property deposit		-	-
Property sold		-	(3,809)
Unrealised change in the value of investment property		2,361	(5,178)
Change in the value of investment property realised during the period		-	-
Transfer to property held for sale	11	-	-
Balance at end of year		**199,297**	**196,502**
Comprising:			
Property portfolio at cost		76,826	76,392
Revaluation		122,471	120,110
		199,297	196,502
Valued at 30 June balance date as determined by:			
Colliers International NZ Limited		173,684	171,566
Seagar & Partners (Manukau) Limited		25,613	24,936
Property recorded at fair value		199,297	196,502

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 $213,000 (last year: $343,000) 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 2012 $000	Group 2011 $000
Balance at beginning of year		1,420	1,420
Transfer from investment property	10	-	-
Balance at end of year		**1,420**	**1,420**
Comprising:			
Property held for sale - at cost		250	250
Property held for sale - valuation component at the time of transfer		1,170	1,170
		1,420	1,420

The Group holds a 50% interest in The Hamilton Joint Venture (HJV) which has contracted to sell 10% of its Newby 1 block to a related party. 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 2012.

12. Intangible assets

Group

Current period to 30 June 2012

	Notes	Computer Software $000	Resource Consents $000	Total $000
Cost				
Balance 1 July 2011		5,057	-	5,057
Additions		284	3,297	3,581
Cost at 30 June 2012		**5,341**	**3,297**	**8,638**
Accumulated amortisation and impairment:				
Balance 1 July 2011		(4,237)	-	(4,237)
Amortisation expense	3	(379)	-	(379)
Amortisation at 30 June 2012		**(4,616)**	**-**	**(4,616)**
Net book value				
At 30 June 2011		820	-	820
At 30 June 2012		**725**	**3,297**	**4,022**

NOTES TO THE FINANCIAL STATEMENTS continued

12. Intangible assets (continued)

Group

Comparative period to 30 June 2011

	Notes	Computer Software $000	Resource Consents $000	Total $000
Cost				
Balance 1 July 2010		4,555	-	4,555
Additions		509	-	509
Disposals		(7)	-	(7)
Cost at 30 June 2011		**5,057**	**-**	**5,057**
Accumulated amortisation and impairment:				
Balance 1 July 2010		(3,912)	-	(3,912)
Amortisation expense	3	(332)	-	(332)
Disposals		7	-	7
Amortisation at 30 June 2011		**(4,237)**	**-**	**(4,237)**
Net book value				
At 30 June 2010		643	-	643
At 30 June 2011		**820**	**-**	**820**

Parent Company

Current period to 30 June 2012

	Notes	Computer Software $000	Resource Consents $000	Total $000
Cost				
Balance 1 July 2011		4,931	-	4,931
Additions		283	3,297	3,580
Cost at 30 June 2012		**5,214**	**3,297**	**8,511**
Accumulated amortisation and impairment:				
Balance 1 July 2011		(4,174)	-	(4,174)
Amortisation expense	3	(347)	-	(347)
Amortisation at 30 June 2012		**(4,521)**	**-**	**(4,521)**
Net book value				
At 30 June 2011		757	-	757
At 30 June 2012		**693**	**3,297**	**3,990**

NOTES TO THE FINANCIAL STATEMENTS continued

12. Intangible assets (continued)

Parent Company

Comparative period to 30 June 2011

	Notes	Computer Software $000	Resource Consents $000	Total $000
Cost				
Balance 1 July 2010		4,429	-	4,429
Additions		509	-	509
Disposals		(7)	-	(7)
Cost at 30 June 2011		**4,931**	**-**	**4,931**
Accumulated amortisation and impairment:				
Balance 1 July 2010		(3,881)	-	(3,881)
Amortisation expense	3	(300)	-	(300)
Disposals		7	-	7
Amortisation at 30 June 2011		**(4,174)**	**-**	**(4,174)**
Net book value				
At 30 June 2010		548	-	548
At 30 June 2011		**757**	**-**	**757**

Computer software

Computer software assets are stated at cost, less accumulated amortisation and impairment.

Resource consents

Resource consents relate to the granting of the Next Generation consents which will allow Port Otago to deepen and widen the channel in Otago Harbour so larger ships will be able to call at Port Chalmers. Mediation is continuing with the various parties who have objected to the Next Generation consents granted in 2011. Following the conclusion of the Environment Court process and granting of all consents the carrying amount will be amortised over the life of the consents which vary between 10 and 25 years.

13. Trade and other payables

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Accounts payable		2,661	3,072	2,176	2,449
Other accrued charges		1,372	1,310	1,187	1,305
Balance at end of year		**4,033**	**4,382**	**3,363**	**3,754**

NOTES TO THE FINANCIAL STATEMENTS continued

14. Employee entitlements

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Accrued wages and salaries and other benefits		492	735	454	588
Annual leave		2,965	3,301	2,965	3,301
Long service leave		633	633	671	633
Retiring allowances		235	304	235	304
Sick leave		85	90	85	90
Related party incentive	24(b)	495	522	-	-
Balance at end of year		**4,905**	**5,585**	**4,410**	**4,916**
Analysed as:					
Current		3,503	4,126	3,503	3,979
Non-current		1,402	1,459	907	937
		4,905	**5,585**	**4,410**	**4,916**

15. Borrowings

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Bank borrowings		90,800	90,210	60,300	65,460
Analysed as:					
Current		2,500	10,500	-	-
Non-current		88,300	79,710	60,300	65,460
		90,800	**90,210**	**60,300**	**65,460**

(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 December 2014.

The security for advances is a cross guarantee between Port Otago Limited and Chalmers Properties Limited in favour of the lender, general security agreement over the assets of the Group and registered first-ranking mortgages over land.

(b) Hamilton Joint Venture facility

The Group has a 50% interest in The Hamilton Joint Venture (HJV) which has a $18 million (last year: $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 2014. At 30 June 2012 HJV had drawn $18 million under its facility (last year: $21 million), with the Group's 50% share amounting to $9 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. At 30 June 2012 HPJV had drawn $7.5 million under its facility (last year: $7.5 million), with the Group's 33.3% share amounting to $2.5 million (last year: $2.5 million).

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	
		2012 $000	2011 $000	2012 $000	2011 $000
Borrowing costs capitalised during the year		497	529	-	-
Weighted average capitalisation rate on funds borrowed		5.41%	5.67%	-	-

17. Share capital

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $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	
		2012 $000	2011 $000	2012 $000	2011 $000
Retained earnings					
Balance at beginning of year		139,026	132,828	97,687	93,643
Profit for the year		12,599	9,400	13,704	16,294
Less dividends paid	26	(11,750)	(12,250)	(11,750)	(12,250)
Transfers (to)/from property revaluation reserve:					
Revaluations realised on property sold		-	3,870	-	-
Unrealised change in the value of investment property	10	(2,361)	5,178	-	-
Balance at end of year		**137,514**	**139,026**	**99,641**	**97,687**
(a) Property revaluation reserve:					
Balance at beginning of year		121,281	130,329	-	-
Transfers from/(to) retained earnings:					
Realised on property sold		-	(3,870)	-	-
Change in value of investment property	10	2,361	(5,178)	-	-
Balance at end of year		**123,642**	**121,281**	**-**	**-**
(b) Available-for-sale revaluation reserve:					
Balance at beginning of year		(73)	(231)	(73)	(231)
Share of profit from associates		190	-	190	-
Valuation gain/(loss) recognised		(5,222)	158	(5,222)	158
Balance at end of year		**(5,105)**	**(73)**	**(5,105)**	**(73)**
(c) Hedging reserve:					
Balance at beginning of year		(3,790)	(4,480)	(3,049)	(3,520)
Change in fair value of interest rate swaps		109	1,054	(481)	725
Deferred tax arising on fair value movement		(30)	(364)	135	(254)
Balance at end of year		**(3,711)**	**(3,790)**	**(3,395)**	**(3,049)**
Total Reserves		**252,340**	**256,444**	**91,141**	**94,565**

The available-for-sale revaluation reserve arises on the revaluation of shares in listed companies and investment in associate, Icon Logistics Limited. 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 $5,295,000 (last year: $73,000). 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 2012 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	
	2012 $000	2011 $000	2012 $000	2011 $000
Financial assets				
Loans and receivables				
Cash and cash equivalents	679	924	235	511
Debtors and other receivables	8,914	9,898	6,752	8,944
Secured advances	1,500	-	-	-
Other financial assets:				
- finance leases	808	934	-	-
Total loans and receivables	**11,901**	**11,756**	**6,987**	**9,455**
Available for sale				
Listed shares	31,649	36,871	31,649	36,871
Investment in associates	875	-	875	-
Total available for sale	**32,524**	**36,871**	**32,524**	**36,871**

	Group		Parent Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Financial liabilities				
Derivative financial instruments				
Hedge accounted	(4,281)	(4,158)	(3,953)	(3,506)
Non-hedge accounted derivatives	(1,045)	(506)	(549)	(314)
Total derivative financial instruments	**(5,326)**	**(4,664)**	**(4,502)**	**(3,820)**
Financial liabilities at amortised cost				
Creditors and other payables	(4,033)	(4,382)	(3,545)	(3,754)
Borrowings:				
- secured loans	(90,800)	(90,210)	(60,300)	(65,460)
Total financial liabilities at amortised cost	**(94,833)**	**(94,592)**	**(63,845)**	**(69,214)**

(b) Credit quality of financial assets

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

	Group		Parent Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Cash at bank and term deposits	679	924	235	511
Debtors and other receivables	8,914	9,898	6,752	8,944
Finance leases	808	934	-	-
Secured advances	1,500	-	-	-
Total credit risk	**11,901**	**11,756**	**6,987**	**9,455**

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 2012				
Cash and cash equivalents	679	679	679	-
Debtors and other receivables	8,914	8,914	8,914	-
Secured advances	1,500	1,500	1,500	-
Finance leases	808	1,015	214	801
Total	11,901	12,108	11,307	801
Parent Company 2012				
Cash and cash equivalents	235	235	235	-
Debtors and other receivables	6,752	6,752	6,752	-
Total	6,987	6,987	6,987	-
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	-

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 2012				
Creditors and other payables	(4,033)	(4,033)	(4,033)	-
Net settled derivative liabilities	(5,326)	(6,203)	(2,445)	(3,758)
Secured loans	(90,800)	(106,324)	(44,731)	(61,593)
Total	(100,159)	(116,560)	(51,209)	(65,351)
Parent Company 2012				
Creditors and other payables	(3,545)	(3,545)	(3,545)	-
Net settled derivative liabilities	(4,502)	(5,312)	(2,058)	(3,254)
Secured loans	(60,300)	(72,362)	(24,542)	(47,820)
Total	(68,347)	(81,219)	(30,145)	(51,074)
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)

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	2012				2011			
	-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	-	(1,279)	-	1,910	-	(1,863)	-	1,790
Borrowings	590	-	(590)	-	593	-	(593)	-
Total sensitivity to interest rate risk	**590**	**(1,279)**	**(590)**	**1,910**	**593**	**(1,863)**	**(593)**	**1,790**

	-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	-	(3,165)	-	3,165	-	(3,687)	-	3,687
Total sensitivity to equity price risk	**-**	**(3,165)**	**-**	**3,165**	**-**	**(3,687)**	**-**	**3,687**

Parent Company	2012				2011			
	-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	-	(1,253)	-	1,978	-	(1,539)	-	1,477
Borrowings	429	-	(429)	-	452	-	(452)	-
Total sensitivity to interest rate risk	**429**	**(1,253)**	**(429)**	**1,978**	**452**	**(1,539)**	**(452)**	**1,477**

	-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	-	(3,165)	-	3,165	-	(3,687)	-	3,687
Total sensitivity to equity price risk	**-**	**(3,165)**	**-**	**3,165**	**-**	**(3,687)**	**-**	**3,687**

NOTES TO THE FINANCIAL STATEMENTS continued

20. Reconciliation of consolidated operating cash flows

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
The reconciliation between profit & the cash flow from operations is:					
Profit for the year		12,599	9,400	13,704	16,294
Plus/(less) non cash items:					
Unrealised net change in the value of investment property		(2,361)	5,178	-	-
Depreciation and amortisation		7,620	7,330	7,411	7,158
Movement in the fair value of interest rate swaps		771	553	200	433
Movement in non-current employee entitlements		(57)	126	(30)	79
Movement in deferred tax		887	(316)	(412)	(262)
Plus/(less) items classified as investing activities:					
Loss/(gain) on sale of property, plant and equipment		(225)	(23)	(225)	(383)
Loss/(gain) on disposal of investment property		-	(1,714)	-	-
Movement in working capital items:					
Trade and other receivables		984	(3,066)	2,192	(2,992)
Trade and other payables		(349)	345	(390)	159
Current employee entitlements		(623)	380	(476)	354
Income tax		(1,776)	3,471	(733)	2,400
Inventories		(61)	(27)	(61)	(27)
Movement in working capital items classified as investing activities		192	(48)	111	-
Net cash flows from operating activities		**17,601**	**21,589**	**21,291**	**23,213**

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. Port Otago Limited's investment in associate is recorded at fair value.

The financial statements include the relevant interest in each joint venture's assets and liabilities at 30 June 2012 along with the share of trading for the relevant period.

	Notes	Group		Parent Company	
		2012 $000	2011 $000	2012 $000	2011 $000
Current assets		394	336	194	206
Non current assets		27,045	26,370	12	15
Total assets		27,439	26,706	206	221
Current liabilities		(4,130)	(10,600)	(45)	(38)
Non current liabilities		(9,495)	(3,024)	-	-
Total liabilities		(13,625)	(13,624)	(45)	(38)
Net assets		**13,814**	**13,082**	**161**	**183**
Income (including unrealised items)		1,114	999	949	961
Expenses (including net borrowing costs and unrealised items)		(1,067)	(3,632)	(820)	(828)

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 2012 the Group had commitments/approvals for capital expenditure of $2.7 million (last year: $0.4 million) which relates to purchases and refurbishments 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	
		2012 $000	2011 $000	2012 $000	2011 $000
Rentals receivable					
Within one year		12,845	14,188	1,202	2,189
After one year but not more than five years		36,743	39,861	2,019	2,807
More than five years		55,024	52,859	1,938	2,323
Minimum future lease receivable		**104,612**	**106,908**	**5,159**	**7,319**

23. Contingent liabilities

Apart from the matters noted below, there are no contingent liabilities at 30 June 2012 (30 June 2011: 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 2012 joint venture bank borrowings were $18 million (last year: $21 million) and the Group's 50% share, amounting to $9 million, was recorded as a non-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 2012 joint venture bank borrowings were $7.5 million (last year: $8 million) and the Group's 33.3% share, amounting to $2.5 million, was recorded as a 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	
	2012 $000	2011 $000	2012 $000	2011 $000
• **Otago Regional Council**				
Contribution towards operation of Harbour Control Centre	60	60	60	60
Property rental	7	7	7	7
Rates expense	(34)	(31)	(34)	(31)
Capital expense	-	(164)	-	(164)
• **Chalmers Properties Limited Group**				
Administration services provided	-	-	213	205
Sale of property, plant and equipment	-	-	-	785
Interest expense	-	-	(41)	(33)
Interest revenue	-	-	-	1
• **Fiordland Pilot Services Limited**				
Administration fee	-	-	(30)	-
Pilot fee	-	-	(89)	-
• **Harbourcold Dunedin**				
Property rental	-	-	553	544
Expenditure	-	-	(155)	(157)
• **Icon Logistics Limited**				
Property rental	219	-	219	-
Supplier of goods and services	(613)	-	(613)	-

Amounts receivable from related parties are included in note 6.

During the year the Group and its shareholder, the Otago Regional Council (ORC), entered into an agreement for the ORC to transfer 2011 tax year losses to the Group. In conjunction with the tax loss transfer of $11,756,136 (2010 tax year: $7,000,000), by way of a tax loss offset, the Group made a subvention payment of $5,038,345 (2010 tax year: $3,000,000) to the ORC. The consequence of the tax loss transfer and the subvention payment was a $5,038,345 reduction in income tax payments in the current year (2011: $3,000,000).

Port Otago Limited's tax liability for 2011 was eliminated by tax losses of $9,984,251 transferred from the Otago Regional Council by subvention payment of $2,995,276 and loss offset of $6,988,975.

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 $977,000 is to be offset for the 2012 year (2011: $962,000).

During the year, Chalmers Properties Limited provided a $3,000,000 (Group share: $1,500,000) secured interest bearing advance to The Hamilton Joint Venture.

(b) Financial arrangement – The Hamilton Joint Venture

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 Mr Andrew Duncan, who ceased employment with the Group during 2012.

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties (continued)

The terms of the transaction with Mr Duncan 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 land development costs up to a maximum of $0.84 million plus tax, which amounts to $1.25 million after payroll taxes are added (the Group's share is $0.63 million).

  At 30 June 2012 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 June 2014 (last year: February 2008 to July 2015).

(c) Other related party transactions

Director(s)	Related Party	Nature of Relationship
D J Faulkner	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 Lease of property from Group
E J Harvey	Director of Kathmandu Holdings Limited	Lease of property from Group
E G Johnson	Chairman of Fulton Hogan Group	Supplier to the Group Lease of property from Group
	Director of National Institute of Water and Atmospheric Research Limited	Supplier to the Group

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

	Group		Parent Company	
	2012 $000	2011 $000	2012 $000	2011 $000
• **Farra Dunedin Engineering Limited**				
Property rental	41	38	-	-
Maintenance expense	(52)	(60)	(52)	(60)
• **Fulton Hogan Group companies**				
Property rental	-	19	-	19
Maintenance expense	(11)	(288)	(11)	(288)
• **Gough Gough and Hamer Investments Limited** (and it's wholly owned subsidiaries)				
Maintenance expense	(163)	(291)	(163)	(291)
Capital expenditure	-	(228)	-	(228)
• **Kathmandu Holdings Limited**				
Property rental	223	165	-	-
• **National Institute of Water and Atmospheric Research Limited**				
Consultancy services	-	(4)	-	(4)
Capital expenditure	(58)	(122)	(58)	(122)

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties (continued)

Related party receivable/(payable) at year end:

	Group		Parent Company	
	2012 $000	2011 $000	2012 $000	2011 $000
• **Otago Regional Council**				
Trade receivable	17	17	17	17
Accounts payable	(6)	(5)	(6)	(5)
• **Farra Dunedin Engineering Limited**				
Trade receivable	12	-	-	-
• **Fulton Hogan Group Companies**				
Trade receivable	-	1	-	1
• **Gough Gough and Hamer Investments Limited** (and it's wholly owned subsidiaries)				
Accounts payable	(4)	(5)	(4)	(5)
• **HarbourCold Dunedin**				
Accounts payable	-	-	(13)	(21)
• **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	
	2012 $000	2011 $000	2012 $000	2011 $000
Directors' fees	317	369	227	277
Salaries and other short-term employee benefits	1,916	1,760	1,292	1,331
	2,233	**2,129**	**1,519**	**1,608**

NOTES TO THE FINANCIAL STATEMENTS continued

26. Dividends – Group and Parent Company

	Notes	2012 $000	2011 $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		4,750	5,250
Final dividend		1,900	1,900
Dividends for the financial year		**11,750**	**12,250**
Adjust for dividends declared after year end:			
2012 Final dividend declared September 2012	28	(1,900)	-
2011 Final dividend declared September 2011		1,900	(1,900)
2010 Final dividend declared September 2010		-	1,900
Dividend distributed to owners as disclosed in the Consolidated Statement of Changes in Equity		11,750	12,250
Dividends per share (cents)		58.8	61.3

27. Operating leases - Group and Parent Company

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

	Notes	2012 $000	2011 $000
Minimum rental commitments for all non-cancellable operating leases are:			
Payable within one year		102	411
Payable within one to two years		100	-
Payable within two to five years		100	-
		302	**411**

28. Significant events after balance date

Dividends

On 4 September 2012 the Directors declared a final dividend of $1.9 million for the year ended 30 June 2012. As the final dividend was approved after balance date, the financial effect of the dividend payable of $1.9 million has not been recognised in the balance sheet.

AUDIT 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 2012

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 12 to 45, that comprise the balance sheet as at 30 June 2012, the income statement, 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

Financial statements

In our opinion the financial statements of the company and group on pages 12 to 45:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date.

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 4 September 2012. 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
Dunedin, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Port Otago Limited and Group (the company) for the year ended 30 June 2012 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 4 September 2012 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 2012.

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 $12.6 million, compared to $9.4 million last year.

Dividends
A final dividend of $1.9 million will be paid on 4 September 2012, which brings total dividends for the year to $11.75 million.

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

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

At the Company's last Annual Meeting, held on 7 December 2011, Mr E J Harvey and Mr D Rillstone retired by rotation and were reappointed. Mr P F Rea was appointed as a director on 7 December 2011. Mr D Rillstone subsequently retired as a director on 5 June 2012.

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)	59	18	77
D R Black (Deputy Chairman)	33	13	46
E J Harvey	31	11	42
E G Johnson	30	11	41
V H Pooch	29	18	47
P F Rea	14	6	20
D Rillstone [R]	31	13	44
	227	**90**	**317**

[R] Retired during the year

STATUTORY DISCLOSURE continued

Directors interests

Directors have disclosed the following general interests for the year ended 30 June 2012 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
D J Faulkner	Brightwater Group Limited	Director
	Environmental Protection Authority	Director
	Gough Gough and Hamer (and its wholly owned subsidiaries)	Director
D R Black	Clough Holdings Limited	Chairman
	Farra Engineering Limited	Chairman
	Forests Otago Limited	Chairman
	Healthcare Otago Charitable Trust	Chairman
	Otago Rescue Helicopter Trust	Chairman
E J Harvey	APN News and Media Limited	Director
	Ballance Agri-Nutrients Limited	Director
	DNZ Property Fund Limited	Director
	Heartland Building Society	Director
	Kathmandu Holdings 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	Craigpine Farming Limited	Director
	Craigpine Timber Limited	Director
	Goom Landscapes Limited	Chairman
	Key Business Partners Limited	Director
	Number Power Limited	Director
	Southern Hospitality Limited	Chairman
D Rillstone	Barker Fruit Processors Limited	Director
	Crosshill Farm Limited	Director
	Payton Holdings Limited	Director

STATUTORY DISCLOSURE continued

Employee remuneration

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

Remuneration range ($)	Existing Employees	Terminated employees
590,001 – 600,000	-	1*
360,001 – 370,000	1	-
210,001 – 220,000	1	-
200,001 – 210,000	2	-
190,001 – 200,000	1	-
180,001 – 190,000	4	-
170,001 – 180,000	2	-
160,001 – 170,000	1	-
150,001 – 160,000	4	-
130,001 – 140,000	1	3
120,001 – 130,000	2	4
110,001 – 120,000	4	-
100,001 – 110,000	13	1

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

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

Directors of subsidiary companies

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

The following persons held office as Directors of subsidiary companies at 30 June 2012, or retired during the year - as indicated with an (R):

Company	Director
Chalmers Properties Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, V H Pooch, P F Rea, D Rillstone (R)
Fiordland Pilot Services Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, V H Pooch, P F Rea, D Rillstone (R)
Perpetual Property Limited	D J Faulkner, D R Black, E J Harvey, E G Johnson, V H Pooch, P F Rea, D Rillstone (R)
South Freight Limited	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 2012 was $98,000 (last year: $94,400).

For and on behalf of the Board of Directors

D J Faulkner
Chairman
4 September 2012

E J Harvey
Director
4 September 2012

DIRECTORY

Directors

David Faulkner	Chairman
Ross Black	Deputy Chairman
John Harvey	Chairman Audit Committee
Ed Johnson	
Vincent Pooch	
Paul Rea	

Executive

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

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Email	pol@portotago.co.nz
Website	www.portotago.co.nz

Bankers

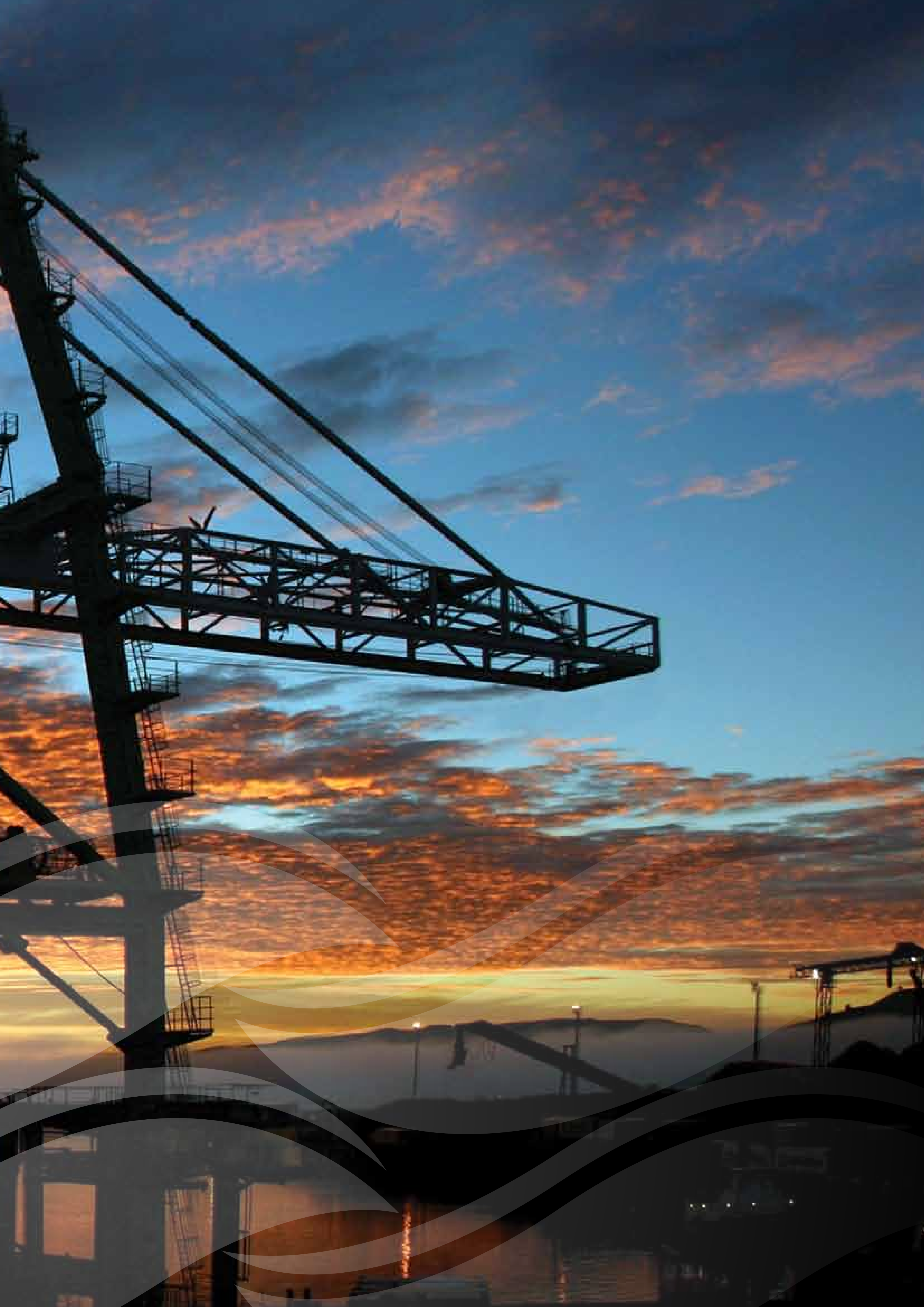
ANZ National Bank Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General



PORT OTAGO LIMITED

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