Condensed Statement of Financial Position

As at 31 December 2009

		Unaudited Dec 2009 $000	Unaudited Dec 2008 $000	Audited Jun 2009 $000
Current assets				
Cash and cash equivalents		1,998	761	253
Trade and other receivables		8,097	7,006	6,708
Inventories		459	446	485
Property held for sale		4,058	1,420	1,420
Finance leases		108	97	103
Income tax		-	252	-
		14,720	9,982	8,969
Non-current assets				
Property, plant and equipment		153,798	155,146	153,327
Investment property		200,588	192,071	207,479
Property deposit	Note 4	248	645	644
Shares in listed companies		37,979	40,352	36,713
Finance leases		992	1,100	1,047
Intangible assets		676	727	721
		394,281	390,041	399,931
Total assets		**409,001**	**400,023**	**408,900**
Current liabilities				
Trade and other payables		3,867	4,278	3,969
Deferred settlement		4,621	-	4,542
Employee entitlements		4,141	3,045	4,231
Other financial instruments		2,883	2,124	3,501
Income tax		508	-	1,345
		16,020	9,447	17,588
Non-current liabilities				
Borrowings (secured)		94,300	101,660	102,690
Employee entitlements		1,462	1,379	1,449
Other financial instruments		1,566	5,554	2,490
Deferred tax liabilities		15,189	13,515	14,495
		112,517	122,108	121,124
Total liabilities		128,537	131,555	138,712
Equity				
Share capital		20,000	20,000	20,000
Reserves		260,464	248,468	250,188
Total equity		280,464	268,468	270,188
Total equity and liabilities		**409,001**	**400,023**	**408,900**

The accompanying notes form part of these interim financial statements.

Condensed Statement of Cash Flows

For the six months ended 31 December 2009

		Unaudited 6 months Dec 2009 $000	Unaudited 6 months Dec 2008 $000	Audited Year to Jun 2009 $000
Cash flows from operating activities				
Cash was provided from:				
Receipts and port operations		27,406	26,260	57,148
Rental income		5,811	4,837	9,643
Dividend received		538	570	807
Interest received		104	486	49
Cash was disbursed to:				
Payment to employees and suppliers		(21,645)	(18,718)	(38,935)
Interest paid		(4,116)	(3,887)	(6,663)
Income tax paid		(2,484)	(1,196)	(1,995)
Net GST received/(paid)		290	239	(27)
Net cash flows from operating activities	**Note 3**	**5,904**	**8,591**	**20,027**
Cash flows from investing activities				
Cash was provided from:				
Sale of property, plant and equipment		199	-	44
Sale of investment property		10,336	5,442	5,446
Advances repaid		6	190	812
Repayment of lessee improvements		50	46	93
Cash was applied to:				
Purchase of property, plant and equipment		(4,119)	(3,606)	(5,246)
Interest capitalised		(308)	(308)	(611)
Purchase of investment property		-	-	(7,146)
Improvements to investment property		(33)	(774)	(376)
Net cash flows used in investing activities		**6,131**	**990**	**(6,984)**
Cash flows from financing activities				
Cash was provided from:				
Proceeds from borrowings		22,610	50,750	75,760
Cash was applied to:				
Repayment of borrowings		(31,000)	(54,120)	(78,100)
Dividends paid		(1,900)	(6,900)	(11,900)
Net cash flows from financing activities		**(10,290)**	**(10,270)**	**(14,240)**
Increase (decrease) in cash held		**1,745**	**(689)**	**(1,197)**
Cash held at beginning of period		253	1,450	1,450
Cash held at end of period		**1,998**	**761**	**253**

The accompanying notes form part of these interim financial statements.

Notes to the Condensed Financial Statements

For the six months ended 31 December 2009 (Unaudited)

1. General information

The unaudited interim condensed financial statements presented are those of Port Otago Limited ("the Company"), its subsidiaries and share of joint ventures ("the Group"). The Company is a limited liability company incorporated in New Zealand and registered under the Companies Act 1993.

2. Summary of significant accounting policies

Basis of Preparation

These unaudited condensed interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. The unaudited interim financial statements have been prepared using the New Zealand Dollar as the functional and presentation currency.

The unaudited condensed interim financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report for the year ended 30 June 2009.

Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2009, as described in those annual financial statements.

The Company and Group have adopted the following revised standards which are effective for the current reporting period:

- NZ IAS 1 Presentation of Financial Statements (revised). The revised standard requires the presentation of all owner changes in equity, separately from non-owner changes in equity, in a Statement of Changes in Equity. All non-owner changes in equity are required to be presented in performance statements. Companies can choose whether to present one performance statement (a Statement of Comprehensive Income) or two statements (an Income Statement and a Statement of Comprehensive Income). The Group has elected to present two statements; an Income Statement and a Statement of Comprehensive Income. The interim financial statements have been prepared under the revised disclosure requirements.

- NZ IAS 23 Borrowing costs (revised) and NZ IAS 40 Investment Property (revised). The revision to these standards had no material impact on the Company and Group.

To ensure consistency with the current period, comparative figures have been restated where appropriate.

3. Reconciliation of consolidated operating cash flows

	6 months Dec 2009 $000	6 months Dec 2008 $000	Year to Jun 2009 $000
The reconciliation between profit and the cash flow from operations is:			
Profit for the period	9,727	5,350	14,593
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	(4,036)	(1,961)	(5,430)
Depreciation and amortisation	3,524	3,617	7,142
Interest on deferred settlement	79	-	-
Movement in the fair value of interest rate swaps	148	663	567
Movement in non-current employee entitlements	13	(9)	61
Movement in deferred tax	187	107	609
Plus/(less) items classified as investing activities:			
Loss/(gain) on disposal of property, plant and equipment	20	-	(48)
Loss/(gain) on disposal of investment property	(1,169)	8	8
Movement in working capital items:			
Trade and other receivables	(1,389)	564	293
Trade and other payables	(102)	837	134
Current employee entitlements	(90)	(608)	549
Income tax	(837)	136	1,702
Inventories	26	(113)	(153)
Movement in working capital items classified as investing activities	(197)	-	-
Net cash flows from operating activities	**5,904**	**8,591**	**20,027**

4. Commitments

At 31 December 2009 the Group had commitments/approvals for capital expenditure of $8.2 million (31 December 2008: $6.3 million, 30 June 2009: $9.0 million).

Included within capital commitments is the Group's 33.3% share, via joint venture participation, in a contract to purchase land at Hamilton. The joint venture has contracted to purchase the property for $19.0 million (plus GST) with the settlement amount of $17.1 million (Group 33.3% share: $5.7 million) due for payment in April 2010. An independent valuation at 31 December 2009 showed that the property had a fair value of $17.9 million (31 December 2008: $20.3 million, 30 June 2009: $19.7 million), which is lower than the contracted purchase price. Accordingly, the property deposit and ancillary capitalised development costs were written down to indicated fair value of $0.74 million (Group 33.3% share: $0.25 million) at 31 December 2009. The Group's share of the write-down, an amount of $0.40 million, is recorded within the current period's unrealised net change in value of investment property in the Income Statement.

5. Contingencies

Apart from the matters noted below, there are no other material contingent liabilities at 31 December 2009 other than those arising in the normal course of business.

Port Noise
The Company continues to have an obligation to either carry out or contribute to acoustic treatment of certain properties in Port Chalmers. The Company is steadily progressing with the acoustic treatment of the relevant properties.

Guarantees
The Group has a 50% interest in certain Hamilton Joint Ventures. As part of funding arrangements the Group has guaranteed joint venture borrowings from ANZ National Bank Limited to a limit of $21 million. At 31 December 2009 joint venture borrowings were $21 million (31 December 2008: $21 million, 30 June 2009: $21 million) and the Group's 50% share, amounting to $10.5 million, was recorded as a non-current liability in the Statement of Financial Position.

Contract for the sale of joint venture land
A joint venture in which the Group has a 33.3% share has 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.

6. Events after balance date

Dividends
On 16 February 2010 the directors declared an interim dividend of $2.5 million.

Directory

Directors
John Gilks — Chairman
Ross Black — Deputy Chairman
David Faulkner — (appointed 11 December 2009)
John Harvey
Ed Johnson
Vincent Pooch
Dougal Rillstone

Executive
Geoff Plunket — Group Chief Executive
Andrew Duncan — Chief Executive – Chalmers Properties Limited

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15 Beach Street
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Port Chalmers
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Facsimile (03) 472-7891
Email pol@portotago.co.nz
Website www.portotago.co.nz

Bankers
ANZ National Bank Limited

Solicitors
Anderson Lloyd

Auditors
Audit New Zealand on behalf of the Auditor-General

PORT OTAGO LIMITED

www.portotago.co.nz

Interim Report

For the six months ended 31 December 2009

PORT OTAGO LIMITED

Overview of Group Results

	Six months Dec 2009 $million	Six months Dec 2008 $million
Operating revenue	34.7	31.6
EBITDA*	14.1	12.5
Operating surplus before tax	6.7	5.5
Profit for the period	9.7	5.4
Total assets	409	400
Shareholders equity	280	268
Equity ratio	68%	67%
Net asset backing per share	$14.02	$13.42
Trade:		
Container throughput (TEU)	103,000	98,600
Conventional cargo volume (000 tonnes)	527	518
Number of vessel arrivals	240	265

**Earnings before interest, tax, depreciation and amortisation*

Chairman's Half Year Review

Financial results

The Port Otago Group, comprising port activities plus the investment property business operated by Chalmers Properties Limited, has delivered a strong performance for the six months ended 31 December 2009. In an environment of challenging trading conditions the Group earned a consolidated profit of $9.7 million, an 80% increase on the previous corresponding period.

The consolidated profit includes a $1.3 million gain from the sale of property and plant and $4.0 million of unrealised property revaluations.

It is pleasing to report growth in Port Otago's key operating performance measure with earnings before interest, tax, depreciation and amortisation (EBITDA) increasing by 13% to $14.1 million. Both the port business and the investment property business performed strongly. Tight control on operating costs ensured revenue gains translated into improved operating performance.

A summary of the six month result follows:

Profits	Unaudited 6 Months Dec 2009 $m	Unaudited 6 Months Dec 2008 $m	Change
EBITDA*	14.1	12.5	+13%
Depreciation and amortisation	(3.5)	(3.6)	
Net interest expense	(3.9)	(3.4)	
Operating surplus before tax	6.7	5.5	+22%
Unusual Items			
Gain on sale of property and plant	1.3	-	
Merger investigation costs	(0.3)	-	
Unrealised Items			
Unrealised revaluation of investment property	4.0	2.0	
Unrealised change in value of interest rate swaps	(0.1)	(0.7)	
Profit before tax	11.6	6.8	+71%
Income tax expense	(1.9)	(1.4)	
Profit for the period	9.7	5.4	+80%

**Earnings before interest, tax, depreciation and amortisation*

Interim dividend

An interim dividend of $2.5 million, the same as last year, will be paid on 26 February 2010. Fully imputed for tax, the dividend represents 49% of the Group's half-year operating surplus after tax.

Financial position

Port Otago remains in a strong financial position with shareholders equity at 31 December 2009 of $280 million comprising 68% of total assets. Borrowings reduced by $8.4 million over the six months to $94.3 million, well within the $130.5 million committed bank facilities available to the Group.

Port operations - financial

Trading revenue from port operations increased by 8% to $28.4 million, reflecting increased volumes of both containerised and conventional cargoes plus revenue from contract dredging.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the port business improved to $9.4 million, a 4% increase. The improvement in EBITDA reflected higher revenue partially offset by one-off restructuring costs of $1.3 million.

Port operations - trade

The port handled 240 vessel calls for the 6 months, 9% fewer than in the previous corresponding period. This reduction is a consequence of a change in container trade flows through the port which saw the number of container vessel calls decline by 20%. Notwithstanding this decline in container vessel calls, container throughput grew by 4% to 103,000 TEU (twenty foot equivalent units). This growth was driven by increases in both export and tranship container volumes which more than offset a reduction in containerised imports.

Increased visits by forestry vessels and petroleum tankers compensated for a decline in cruise ship arrivals.

Resurgence in log exports helped conventional cargo volumes reach 527,000 tonnes, 2% up on the comparative period. Log exports were up by 32% but the tonnage increase was largely matched by a reduction in woodchip exports.

Port operations - capital expenditure and port development

As part of the ongoing capital replacement programme the port received delivery of two new-generation straddle carriers. These machines are classified as 4-over-3 which means they can stack containers 4-high and can move individual containers over an existing 3-high stack. Improving the capability of the port's fleet of container handling equipment is part of a long term plan to increase container capacity at the Port Chalmers terminal.

An upgrade to the straddle carrier garage facility is also being undertaken in order to accommodate the new straddle carriers as well as to improve the work conditions for staff who service the fleet.

Investigations into port development necessary for Port Chalmers to handle the next generation of container vessels have continued. Comprehensive technical studies on the impact of deepening the lower harbour channel have taken longer than anticipated although are now nearly complete. A resource consent application for the deepening is expected to be lodged within the next 6 months following further public consultation.

Health and safety

There were 4 lost time injury (LTI) accidents recorded during the period which resulted in an LTI frequency rate of 1.05 lost time injuries per 100,000 hours worked (calculated on a rolling 12 month basis).

The Company has recently commissioned a large electronic notice board at the port's main entrance to further heighten awareness of health and safety issues. This initiative reinforces the Company's goal to achieve a zero harm workplace.

Environment and community

The Company has maintained its active participation in the regular meetings of the Port Environment / Liaison Committee.

Steady progress has been made on the acoustic treatment programme for properties in Port Chalmers located in certain noise zones surrounding the port. In order to better measure and understand noise generated by the port a second noise monitoring device is being installed adjacent to the port's northern boundary.

Staff

It has been an unsettling time for staff over the past 6 months as the Company has restructured and reduced staff numbers in response to expected changes in the frequency and number of container vessel calls. The Board extends full thanks to staff for their loyalty and commitment over this difficult period. The sound interim performance by the Group reflects the positive response by staff to the changes which have been required to keep the Company competitive in an increasingly difficult environment.

Merger discussions with Lyttelton Port Company (LPC)

In November 2008, the Boards of Port Otago Limited (POL) and Lyttelton Port Company Limited (LPC) entered into a Memorandum of Understanding in relation to merger discussions. Shortly thereafter, both Companies agreed to the joint engagement of Antipodes Consult Limited, a company specialising in merger and acquisition assignments, to prepare a report (The Antipodes Report) covering valuation of the port operating businesses, identification and analysis of future benefits, preferred structure for implementing the proposal and a recommended approach to addressing regulatory issues.

A Steering Group, comprising representatives of both Boards and executives of both Companies, was formed to assist with this process. The Antipodes Report was delivered to both Companies on 23 December 2009. The much longer than anticipated time it took to complete this work was a reflection of the complexity of the issues and the need to re-work, on several occasions, financial information as a consequence of changes in the performance and future prospects of each Company.

The conclusion in The Antipodes Report is that a strong business case exists to support a merger of the port operations of both Companies. Ownership of the infrastructure assets, comprising port land and wharves, would continue to be retained in local regional ownership, but available for use by the new merged port operating entity pursuant to a long-term agreement.

The Boards of POL and LPC have individually considered The Antipodes Report and agreed to proceed to the next stage in the merger process.

A significant amount of work remains to be completed before the POL Directors will be in a position to recommend whether or not merging the Company's port operating business with that of LPC is in the best interests of POL and its shareholder. The ultimate decision on whether or not the merger takes place will rest with the shareholders.

In agreeing to proceed to the next phase in the merger negotiations we are conscious of the need to achieve finality and certainty of outcome as quickly as possible. However, this needs to be balanced with recognition of the complexity of some of the issues and the fact that the process of seeking regulatory approval for the merger may be lengthy.

Chalmers Properties Limited (CPL)

The resilience of CPL's investment property portfolio was evident in the half-year result. Firstly, a $1.2 million gain was achieved from successfully completing the sale of the 3.4 hectare Harrow Street portion of the company's Dunedin ground lease portfolio. Under the sales process existing lessees were provided with a first opportunity to acquire the freehold ownership of the property they occupied. It is particularly pleasing that all of the 12 land titles were sold to existing lessees or their tenants.

Secondly, CPL recorded a net $4.0 million increase in the value of its investment property at the end of the period. This increase, which is unrealised, was on the basis of valuation reviews performed by independent valuers. While CPL's Dunedin based properties increased in value there were reductions in value for the company's interests in undeveloped land at Hamilton.

CPL's profit for the half-year was $7.8 million after tax, well up on the $2.4 million for the previous corresponding period. Much of this increase reflects the two previously mentioned items; the $1.2 million gain on sale and the $4.0 million unrealised revaluation.

On an operating basis, CPL's profit before tax increased 31% to $3.7 million. This increase was mainly due to the impact of increased rents as a result of completing rent reviews but also reflected a lower level of costs incurred in relation to the Harbourside Plan Change compared to the December 2008 half-year.

Outlook

In the past 12 months, the global shipping industry has experienced one of its most turbulent times in decades. This has seen hundreds of ships laid up around the world, capacity withdrawn or reduced and many changes in routes and cargo flows as shippers endeavour to mitigate the impact of the international recession.

New Zealand has not been immune from the effects of these changes. Decisions made by shipping lines early in the period under review were expected to result in a reduction in both the number of ship calls and container volumes through Port Chalmers. While these changes have resulted in fewer container vessel calls, I am pleased to report that the average number of containers exchanged per call has increased, thereby lifting overall container throughput beyond the level in the previous corresponding period. This positive outcome was contrary to expectations at the beginning of the financial year.

The uncertainty around the timing of recovery in global economic growth and the potential for further volatility in shipping route change are critical factors in the current port environment. They present, for Port Otago, both a threat and an opportunity.

We believe Port Otago is well placed to realise the opportunities arising from these changes. In combination, our natural deep water port, up-to-date operating infrastructure, commitment to high levels of customer service and strong focus on productivity improvements, position us well for continued profitable growth.

On behalf of the Board of Directors

John Gilks
Chairman
16 February 2010

Condensed Income Statement

For the six months ended 31 December 2009

	Unaudited 6 months Dec 2009 $000	Unaudited 6 months Dec 2008 $000	Audited Year to Jun 2009 $000
Revenue			
Port operations	28,395	26,243	56,527
Investment property rental	5,774	4,803	9,843
Dividend income	538	570	807
	34,707	31,616	67,177
Other income			
Gain on disposal of property and plant	1,283	-	40
Total revenue and other income	35,990	31,616	67,217
Expenses			
Staff costs	(12,295)	(11,791)	(24,194)
Fuel and electricity	(1,411)	(1,641)	(2,916)
Purchased materials and services	(5,623)	(5,728)	(11,353)
Depreciation and amortisation	(3,524)	(3,617)	(7,142)
Restructuring costs	(1,275)	-	-
	(24,128)	(22,777)	(45,605)
Finance costs			
Finance income	104	159	358
Finance costs	(4,042)	(3,541)	(6,934)
	(3,938)	(3,382)	(6,576)
Non-operating income and expenses			
Merger investigation costs	(251)	-	(722)
Subvention payments	-	-	(278)
Unrealised net change in value of investment property	4,036	1,961	5,430
Unrealised net change in value of interest rate swaps	(148)	(663)	(567)
	3,637	1,298	3,863
Profit before income tax	11,561	6,755	18,899
Income tax benefit/(expense)			
Current tax	(1,647)	(1,497)	(3,697)
Deferred tax	(187)	92	(609)
	(1,834)	(1,405)	(4,306)
Profit for the period	**9,727**	**5,350**	**14,593**

The accompanying notes form part of these interim financial statements.

Condensed Statement of Comprehensive Income

For the six months ended 31 December 2009

	Unaudited 6 months Dec 2009 $000	Unaudited 6 months Dec 2008 $000	Audited Year to Jun 2009 $000
Profit for the period	9,727	5,350	14,593
Other comprehensive income			
Available-for-sale financial assets			
Unrealised increase/(decrease) in the value of share investments	1,266	5,064	1,425
Cash flow hedges			
Unrealised movement in hedged interest rate swaps (net of tax)	1,183	(6,361)	(5,245)
Total comprehensive income for the period	**12,176**	**4,053**	**10,773**

Condensed Statement of Changes in Equity

For the six months ended 31 December 2009

	Unaudited 6 months Dec 2009 $000	Unaudited 6 months Dec 2008 $000	Audited Year to Jun 2009 $000
Equity at the beginning of the period	270,188	266,315	266,315
Total comprehensive income for the period	12,176	4,053	10,773
Distribution to owners:			
Dividends	(1,900)	(1,900)	(6,900)
Equity at the end of the period	**280,464**	**268,468**	**270,188**

The accompanying notes form part of these interim financial statements.