PORT OTAGO LIMITED

Overview of Group results

	Six months Dec 2008 $million	Six months Dec 2007 $million
Operating revenue	31.6	28.1
EBITDA*	12.5	11.4
Operating profit before tax	5.5	4.5
Profit for the period	5.4	18.9
Total assets	400	408
Shareholders equity	268	271
Equity ratio	67%	66%
Net asset backing per share	$13.42	$13.55
Trade:		
Container throughput (TEU)	98,600	89,100
Conventional cargo volume (000 tonnes)	518	483
Number of vessel arrivals	265	253

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

Chairman's Half Year Review

Financial results

The Port Otago Group, comprising the port activities of Port Otago and the investment property business held by Chalmers Properties, is pleased to report an operating profit before tax of $5.5 million, a 22% increase on last year's comparative.

After allowing for the unrealised gain in value of investment property, which reduced from $14.4 million in the previous comparative period to $2.0 million in this period, and tax, the unaudited profit was $5.4 million compared with a profit of $18.9 million in the same period last year.

The comparisons between the two periods are highlighted in the following table:

Profits (unaudited)	6 months Dec 2008 $m	6 months Dec 2007 $m	Change
EBITDA*	12.5	11.4	+10%
Depreciation and amortisation	(3.6)	(3.3)	
Net interest expense	(3.4)	(3.7)	
Net currency exchange (losses)/gains	-	0.1	
Operating profit before tax	5.5	4.5	+22%
Net gain on sale of property	-	1.1	
Unrealised items			
Unrealised revaluation of investment property	2.0	14.4	
Unrealised change in value of interest rate swaps	(0.7)	0.1	
Profit before tax	6.8	20.1	-66%
Income tax expense	(1.4)	(1.2)	
Profit for the period	5.4	18.9	-71%

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

Interim dividend

An interim dividend of $2,500,000, the same as last year, will be paid on 27 February 2009. Fully imputed for tax, the dividend represents 74% of the half-year Group profit, excluding unrealised investment property revaluations.

Financial position

Port Otago remains in a solid financial position with shareholders equity at 31 December 2008 of $268 million comprising 67% of total assets.

Port operations - financial

Trading revenue from port operations increased by 12% to $26.2 million reflecting higher container throughput, a greater volume of conventional cargo and a larger number of vessel arrivals.

As a consequence of the higher revenue, earnings before interest, tax, depreciation and amortisation (EBITDA) improved by 13% to $8.9 million.

As part of the port's ongoing capital development programme the upgrade of the "C-Block" refrigerated container storage area was completed during the period. The upgrade improves the reliability of the electrical reticulation as well as bolstering the total reefer capacity to over 1,700 power points.

Port operations - trade

Container throughput for the six months to 31 December 2008 was 98,600 TEU (twenty foot equivalent units), an increase of 11% on the same period in 2007. The higher volumes handled partly reflected a move by exporters to mitigate the high cost of chartering bulk cargo vessels by using containers for some export cargo. The packing of logs into containers and the export of scrap steel in containers were examples of this trend. By December 2008 charter rates for bulk cargo vessels had significantly reduced and it is likely that exporters will reconsider the economies of bulk shipment versus containerisation for some commodities.

Conventional cargo volumes handled by the port rose 7% to 518,000 tonnes. An increase in log and woodchip exports combined with higher fertiliser volumes offset a decline in cement imports.

There were 265 vessel calls for the six months, an increase of 5% on the last half-year. This increase was reflected in both container vessel calls and cruise ship visits while the number of fishing vessel port visits declined.

Health and safety

In the half-year the Company has maintained its strong focus on health and safety. It is pleasing to report that only one lost time injury accident was recorded during the period. The lost time injury frequency rate was maintained at 0.6 lost time injuries per 100,000 hours worked (calculated on a rolling 12 month basis) which is an excellent result.

Environment and community

Regular meetings of the Port Environment / Liaison Committee continue to occur and assist in keeping good lines of communication open between the Company and the local community. Other meetings have been held with a wide range of stakeholders over the port's "Project Next Generation", a project tasked with planning for Port Chalmers to handle the next generation of container vessels.

Significant progress has been made on the Company's acoustic treatment programme with work progressing well on a number of Port Chalmers properties.

Staff

The Company performance for the first six months of the financial year is a credit to the dedication and determination of our staff. But, particularly in the current economic climate, we need to challenge the status quo in all areas of our business in order to achieve leading levels of productivity and to succeed at "being the best" in the competitive port industry.

Discussions with Lyttelton Port Company Limited (LPC)

In October 2008 Port Otago Limited and LPC entered into a Memorandum of Understanding to explore a merger of their respective port operations. In November 2008 Antipodes, a specialist merger and acquisition firm, was appointed as the independent adviser to a Joint Steering Group comprising representatives of both companies.

The decision to investigate a merger of port operations is a major step forward. The need for port rationalisation within New Zealand has long been recognised. We are confident that the robust process in place will ensure both companies give serious consideration to how the companies could work together in the future in the interests of all stakeholders.

Chalmers Properties Limited (CPL)

While a number of New Zealand listed property entities have, over the last six months, reported falls in property portfolio values it is pleasing to report a $2.0 million unrealised revaluation gain for CPL's property portfolio for the half-year to 31 December 2008. This reflects the strength of the Dunedin ground lease portfolio, the diversity of properties and the quality of tenants.

CPL recorded a profit, inclusive of unrealised revaluations, of $3.6 million in the current period down from the $16.2 million profit for the six months to December 2007. The lower property revaluation was the principal reason for the reduced profit result.

CPL's earnings before interest and tax (EBIT) of $3.47 million were slightly below the $3.51 million for last year's comparative.

The planning process for the Rotokauri area of Hamilton, where CPL's joint venture land holdings are located, has been steadily proceeding. The Hamilton City Council (HCC) held a planning hearing in November 2008 to hear submissions on the Rotokauri Structure Plan. On 13 December 2008 the HCC publicly confirmed adoption of the Rotokauri Structure Plan and formally notified its decisions on all submissions relating to the plan. This is an excellent outcome for CPL and it represents an important stage in the development programme.

The Dunedin City Council (DCC) and the Otago Regional Council (ORC) completed a joint hearing into submissions on the proposed plan change for the Harbourside area in July 2008. The recently announced DCC decision confirmed the adoption of the Harbourside Plan Change. This decision represents an extremely good outcome and, over the long term, will be the catalyst for redevelopment of the rezoned area.

Outlook

The global economic downturn has created an uncertain outlook for business. Few would have predicted the extent of the recent volatility in exchange rates, fuel and commodity prices.

On a positive note, Port Otago has a strong balance sheet with lower future capital expenditure and confirmed term banking arrangements. The port will continue to strive for excellence in servicing the demands of international shipping lines while keeping a strong focus on improving efficiency and minimising operating costs.

On behalf of the Board of Directors

John Gilks

Chairman

17 February 2009

Consolidated Income Statement (unaudited)

For the six months ended 31 December 2008

	6 months Dec 08 $000	6 months Dec 07 $000	Year to June 08 $000
Revenue			
Port operations	26,243	23,471	53,389
Investment property rental	4,803	4,215	8,510
Dividend income	570	427	665
	31,616	28,113	62,564
Other income			
Net gain on disposal of property	-	1,126	2,447
Unrealised net change in the value of investment property	1,961	14,431	17,915
Total revenue and other income	33,577	43,670	82,926
Expenses			
Staff costs	(11,791)	(9,833)	(21,412)
Fuel and electricity	(1,641)	(1,170)	(2,920)
Purchased materials and services	(5,728)	(5,682)	(11,934)
Depreciation and amortisation	(3,617)	(3,309)	(6,794)
	(22,777)	(19,994)	(43,060)
Financial (expense)/income			
Interest and other financial (expense)/income	(3,382)	(3,726)	(7,231)
Net change in value of interest rate swaps	(663)	138	(635)
Foreign exchange gain/(loss)	-	53	69
	(4,045)	(3,535)	(7,797)
Profit before tax	6,755	20,141	32,069
Income tax expense	(1,405)	(1,215)	(4,281)
Profit for the period	**5,350**	**18,926**	**27,788**

Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 31 December 2008

	6 months Dec 08 $000	6 months Dec 07 $000	Year to June 08 $000
Equity at the beginning of the period	266,315	251,923	251,923
Total recognised revenues and expenses:			
Profit for the period	5,350	18,926	27,788
Unrealised increase/(decrease) in the value of share investments	5,064	2,057	(3,165)
Unrealised movement in hedged interest rate swaps (net of tax)	(6,361)	-	(831)
Distribution to owners:			
Dividend paid	(1,900)	(1,900)	(9,400)
Equity at the end of the period	**268,468**	**271,006**	**266,315**

The accompanying notes form part of these interim financial statements.

Consolidated Balance Sheet (unaudited)

As at 31 December 2008

	Dec 08 $000	Dec 07 $000	June 08 $000
Current assets			
Cash and cash equivalents	761	1,181	1,450
Trade and other receivables	7,006	8,517	13,250
Secured advances	-	4,936	-
Inventories	446	343	333
Property held for sale	1,420	-	1,420
Other financial instruments	-	53	1,134
Finance leases	97	88	93
Income tax	252	-	357
	9,982	15,118	18,037
Non-current assets			
Property, plant and equipment	155,146	156,018	155,405
Investment property	192,071	190,348	189,467
Property deposit	645	635	644
Shares in listed companies	40,352	40,510	35,288
Finance leases	1,100	1,197	1,150
Other financial instruments	-	3,982	1,060
Intangible assets	727	519	448
	390,041	393,209	383,462
Total assets	**400,023**	**408,327**	**401,499**
Current liabilities			
Trade and other payables	4,278	4,395	3,819
Deferred settlement	-	3,516	-
Income tax payable	-	53	-
Dividend payable	-	-	5,000
Employee entitlements	3,045	2,549	3,688
Other financial instruments	2,124	-	19
	9,447	10,513	12,526
Non-current liabilities			
Borrowings (secured)	101,660	109,690	105,030
Employee entitlements	1,379	978	1,388
Other financial instruments	5,554	-	106
Deferred tax liabilities	13,515	16,140	16,134
	122,108	126,808	122,658
Total liabilities	**131,555**	**137,321**	**135,184**
Equity			
Share capital	20,000	20,000	20,000
Reserves	248,468	251,006	246,315
Total equity	268,468	271,006	266,315
Total equity and liabilities	**400,023**	**408,327**	**401,499**

The accompanying notes form part of these interim financial statements.

Consolidated Cash Flow Statement (unaudited)

For the six months ended 31 December 2008

	Notes	6 months Dec 08 $000	6 months Dec 07 $000	Year to June 08 $000
Cash flows from operating activities				
Cash was provided from:				
Receipts from port operations		26,260	25,430	53,314
Rental income		4,837	4,466	8,796
Dividend received		570	427	665
Interest received		486	562	726
Cash was disbursed to:				
Payment to employees and suppliers		(15,787)	(15,369)	(36,196)
Interest paid		(3,887)	(4,277)	(7,902)
Income tax paid		(1,196)	(1,821)	(4,852)
Net GST received/(paid)		(2,692)	(1,364)	1,407
Net cash flows from operating activities	3	**8,591**	**8,054**	**15,958**
Cash flows from investing activities				
Cash was provided from:				
Sale of property, plant and equipment		-	3,350	3,603
Sale of investment property		5,442	9,651	9,174
Advances repaid		190	-	5,091
Repayment of lessee improvements		46	43	85
Refund of property deposit		-	-	800
Cash was applied to:				
Purchase of property, plant and equipment		(3,606)	(6,006)	(9,038)
Interest capitalised		(308)	(247)	(507)
Purchase of investment property		-	(2,766)	(5,115)
Improvements to investment property		(774)	(587)	(1,130)
Net cash flows used in investing activities		**990**	**3,438**	**2,963**
Cash flows from financing activities				
Cash was provided from:				
Proceeds from borrowings		50,750	1,800	77,910
Cash was applied to:				
Repayment of borrowings		(54,120)	(12,560)	(93,330)
Dividends paid		(6,900)	(1,900)	(4,400)
Net cash flows from financing activities		**(10,270)**	**(12,660)**	**(19,820)**
Increase (decrease) in cash held		(689)	(1,168)	(899)
Cash held at beginning of period		1,450	2,349	2,349
Cash held at end of period		**761**	**1,181**	**1,450**

The accompanying notes form part of these interim financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2008

1. General information

The consolidated interim financial statements presented are those of Port Otago Limited ("the Company"), its subsidiaries and share of joint ventures ("the Group") for the six months ended 31 December 2008.

2. Summary of significant accounting policies

Basis of Preparation

These interim consolidated financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2008. Accounting policies applied in these consolidated interim financial statements comply with NZ IFRS interpretations issued and effective as at the time of preparing these statements (February 2009) as applicable to the Group as a profit-oriented entity.

The Group in complying with NZ IAS 34 is simultaneously in compliance with International Financial Reporting Accounting Standard 34 (IAS 34). The NZ IFRS standards and interpretations that will be applicable as at 30 June 2009 are not known with certainty at the time of preparing these condensed consolidated interim financial statements.

The preparation of the interim financial statements in accordance with NZ IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Changes in accounting policies

All policies have been applied on bases consistent with those used in the financial statements for the year ended 30 June 2008.

Comparative Period Interim Report

In September 2007 the Group, via joint venture participation, contracted to purchase land for $19.0 million (plus GST) with payment of an initial 10% deposit and then $17.1 million settlement (Group 33.3% share: $5.7 million) due in April 2010.

In the Company's Interim Report for the six month period ended 31 December 2007 the Group's 33.3% share in this contract was included within the Balance Sheet as:

- a $5.29 million Investment property asset, and
- a $4.65 million Deferred settlement liability reflecting the net present value of the settlement proceeds.

As part of preparing the Financial Statements for the year ended 30 June 2008, the accounting treatment for Deferred settlement property purchases was changed from that adopted in the 31 December 2007 Interim Report in order to reflect the requirements under NZ IFRS.

This change in accounting treatment had the following financial impacts:

	Treatment adopted in the Dec 07 Interim Report $000	Financial impact of the change in treatment $000	Treatment adopted in the 2008 Annual Report $000
(a) Consolidated Income Statement – six months ended 31 December 2007			
Other income			
Unrealised net change in the value of investment property	15,059	(628)	14,431
(b) Consolidated Balance Sheet – as at 31 December 2007			
Non-current assets			
Investment property	196,261	(5,913)	190,348
Property deposit	-	635	635
Non-current liabilities			
Deferred settlement	4,650	(4,650)	-
Equity			
Reserves	251,634	(628)	251,006
Equity ratio	66%		66%

3. Reconciliation of consolidated operating cash flows

	6 months Dec 08 $000	6 months Dec 07 $000	Year to June 08 $000
The reconciliation between profit and the cash flow from operations is:			
Profit for the period	5,350	18,926	27,788
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	(1,961)	(14,431)	(17,915)
Depreciation and amortisation	3,617	3,309	6,795
Unrealised foreign exchange (losses)/gains	-	(19)	(4)
Movement in the fair value of interest rate swaps	663	(138)	672
Movement in non-current employee entitlements	(9)	44	100
Movement in deferred tax	107	(894)	(582)
Property deposit written off	-	336	336
Plus/(less) items classified as investing activities:			
Loss/(gain) on disposal of property, plant and equipment	-	(1,462)	(1,409)
Loss/(gain) on disposal of investment property	8	-	(1,371)
Movement in working capital items:			
Trade and other receivables	564	1,938	(5,744)
Trade and other payables	837	920	4,364
Current employee entitlements	(608)	(95)	1,259
Income tax	136	(414)	(58)
Inventories	(113)	2	12
Movement in working capital items classified as investing activities	-	32	1,715
Net cash flows from operating activities	**8,591**	**8,054**	**15,958**

4. Commitments

At 31 December 2008 the Group had commitments/approvals for capital expenditure of $6.3 million (31 December 2007: $6.8 million, 30 June 2008: $8.2 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) and the settlement amount of $17.1 million (Group 33.3% share: $5.7 million) is due for payment in April 2010.

5. Contingencies

Apart from the matters noted below, there are no contingent liabilities at 31 December 2008 (31 December 2007: nil, 30 June 2008: nil).

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 unable to reliably assess its future obligation since the extent and timing of noise mitigation expenditure will depend on the decisions of individual property owners.

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 2008 joint venture borrowings were $21 million (31 December 2007: nil, 30 June 2008: $21 million) and the Group's 50% share, amounting to $10.5 million, was recorded as a non-current liability in the Balance Sheet.

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.

6. Events after balance date

Dividends

On 17 February 2009 the directors declared an interim dividend of $2.5 million.

Directory

Directors
John Gilks Chairman
Ross Black Deputy Chairman
John Harvey (appointed 23 December 2008)
Ed Johnson
Jim Miller
Vincent Pooch
Dougal Rillstone

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

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Bankers
ANZ National Bank Limited

Solicitors
Anderson Lloyd

Auditors
Audit New Zealand on behalf of the Auditor-General

Interim Report

For the six months ended 31 December 2008

PORT OTAGO LIMITED

www.portotago.co.nz