PORT OTAGO LIMITED

Annual Report 2006

Contents

Results in Brief

	2006 $million		2005 $million
Revenue	51.8	+11%	46.5
Operating surplus	14.6	+16%	12.6
Net surplus after taxation	10.1	+21%	8.3
Net surplus after unrealised revaluations	40.1	+68%	23.8
Total assets	286	+51%	189
Shareholders equity	162	+26%	128
Dividends paid and declared	6.75		6.50

Highlights

- Increase in operating surplus.
- Continued strong performance by Chalmers Properties with a $30 million increase in the value of the investment property portfolio.
- Improved container shipping opportunities available from the Port.
- Improved health and safety performance.
- New ZPMC crane commissioned during the year and an order placed for a second new container crane.
- Dividend increased to $6.75 million.

Chairman's Review

2006 has been an excellent year for the Port Otago Group with an improved trading result and a significant increase in property values which has resulted in a record surplus.

Financial Results

The Port Otago Group achieved a consolidated net surplus of $40.1 million for the year to 30 June 2006.

Port operations achieved a surplus of $6.2 million for the year (last year $6.0 million) on revenue of $43.1 million, an increase of 8%.

Chalmers Properties Limited, the Group's investment property company enjoyed a very successful year recording a net surplus of $33.9 million which represents a substantial increase on the $17.8 million surplus in the previous year. The Chalmers Properties surplus is comprised of three different components – an operating surplus after tax of $2.5 million, a profit from the sale of an investment property in Wellington of $1.4 million and a $30.0 million contribution from the increase in the value of investment properties.

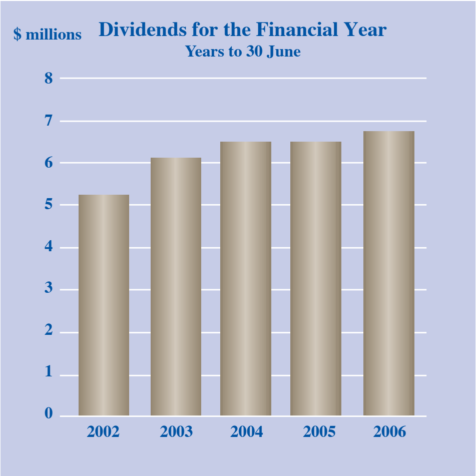
Dividend

Dividend payments of $6.75 million were paid or declared for the year to 30 June 2006, an increase of $0.25 million from the $6.5 million dividend payment for the 2005 year. The fully imputed dividend represents 78% of the trading surplus after tax.

Financial Position

The Port Otago Group continues to be in a strong financial position. The Group has achieved very strong growth in assets and shareholders equity over the past five years. Assets have increased from $108 million in 2002 to $286 million at 30 June 2006. This growth reflects the very significant investment in port infrastructure, the purchase of a shareholding in Lyttelton Port Company Limited and continued investment and growth in Chalmers Properties property portfolio.

Shareholders funds have increased by 93% over the same period from $84 million in 2002 to $162 million at 30 June 2006.



Chairman's Review continued

Port Operations

Trade

130,000 teus (twenty foot equivalent units) were handled through the Container Terminal during the year. The continued increase in exports is reflective of the growth occurring within our Region. This year's increase in export volume of 6% is due to the higher export of agricultural production, additional exports of manufactured goods and an increase in tranship containers.

Being an exporting Region the high value of the New Zealand dollar throughout the year adversely impacted the Region's exporters. An easing of the New Zealand currency will support the Region's exporting base, provide additional cargo volumes for the Port and provide wider economic benefits for the Region.

Conventional cargo volumes were 3% higher than last year at 970,000 tonnes. Higher log exports offset the reduction in fertiliser imports. Other commodity types were generally in line with the previous year.

Shipping Services

The changes to services from recent shipping line mergers and acquisitions have improved the range of services available to the Region's exporters and importers from Port Otago.

Maersk Line, our largest shipping line customer, provides a comprehensive range of services from the Port, including a continuation of the direct service to the key North American and European markets.

Hapag Lloyd started its new service to the Mediterranean and Europe via the Suez Canal in February. In addition, Mediterranean Shipping extended its Capricorn service to Singapore by including a weekly call to Port Otago from May 2006.

Infrastructure Upgrade

As a result of the significant investment in the port infrastructure over recent years Port Otago has in place modern and up to date facilities which are able to provide superior levels of productivity to our customers.

The benefits from the new ZPMC container crane, which arrived in February, are already evident from the faster container movements and the ability to use three container cranes to improve ship turnaround times.

A second ZPMC crane has been ordered and is expected to arrive at Port Otago in June 2007. Two other significant developments are currently underway. These are the strengthening of the number 2 container wharf and the upgrade of the Boiler Point area. The wharf strengthening, which is required to support the heavier weight of the new ZPMC cranes, should be completed by December 2006. The Boiler Point area reclaimed in the mid 1990s is currently being upgraded and paved to the same standard as the remainder of the Container terminal.

The purchase of the second new crane in conjunction with the above projects will largely complete the redevelopment and upgrade of Port Otago's container terminal and places the Port in a good position for the future.

During the year work was also undertaken on refurbishing the Ravensbourne wharf. This involved the maintenance of piles and the wharf structure as well as an upgrade to the wharf decking.

Health & Safety

A key achievement during the year was the significant improvement in our health and safety performance. The lost time accident frequency rate of 1.5 per 100,000 hours worked is the best ever result achieved by the Company and it reflects the tremendous effort and commitment by the Board, management and staff on promoting and achieving a safe working environment. The 7 lost time accidents recorded during the year represent a 35% improvement on the previous year and a 50% improvement from the 2004 year.

Our focus is on continuous improvement and in line with this strategy further improvements in our health and safety performance have been targeted for the coming year.

Chairman's Review continued

Staff

A key factor in our success is the strong commitment by staff to delivering superior standards of customer service. The continued success of the port is a tribute to the skills and dedication of the staff, effective teamwork between management and staff and the staff's overall commitment to the success of Port Otago.

Environment and Community

The Port Environment / Liaison Committee continues to provide a vital link to the community and is an important forum to monitor the Company's environmental performance. The Committee, which comprises representatives from Port Otago, the Port Chalmers community and port users, meets six weekly to discuss a range of issues including noise, landscaping and lighting within the port area.

The Board and management continue to place strong emphasis on the importance of the noise management plan and are focused on completing the acoustic treatment of properties significantly affected by noise from port operations. During the year the design work on a number of residential properties was completed and work will shortly start on their acoustic treatment.

As part of the noise management plan Port Otago has acquired a number of residential properties overlooking the Port. During the coming year we will, in consultation with the Port Environment / Liaison Committee, consider ways in which the area can be redeveloped for the benefit of the local community.

The Company continues to actively support a wide range of community group and local projects. Along with contributing $12,000 towards the running costs for the Port Chalmers Maritime Museum, the port assisted the upgrading of the Port Chalmers Town Hall by funding the $13,000 cost of providing new seating. The Company is also contributing $40,000 to the development of a walking track from Dunedin's boat harbour to Ravensbourne.

The placement of Ralph Hotere's artworks on a landscaped area on Flagstaff Hill, Port Chalmers has also been a highlight during the year. The project completed in conjunction with the Hotere Foundation Trust sees the artworks returned to a site on Flagstaff Hill close to Ralph Hotere's former studio. The surrounding area has been landscaped and the works are accessible for public viewing.

Investment in Lyttelton Port Company Limited

During March and April 2006 Port Otago Limited acquired a 15.47% shareholding in Lyttelton Port Company Limited (LPC) at a cost of $36.9 million.

We are pleased with the level of shareholding which we have attained and we continue to be of the view that in conjunction with LPC we can contribute positively to the future direction of the South Island port industry. Our purchase of shares in LPC was made as a long term investment.

Chalmers Properties Limited

A very strong result has been recorded by the Group's property investment business, held by Chalmers Properties Limited (CPL). The net surplus of $33.9 million for the 2006 financial year represents a 34% return on average shareholder's equity and was well up on last year's net surplus of $17.8 million.

Investment property rentals for the year to June 2006 were $7.3 million, a 19% increase on the previous year as a result of new income from completed developments along with increased rents following rent reviews.

Excluding property disposals and unrealised revaluations, the operating surplus rose 13% to $2.5 million. The sale of CPL's Lambton Quay, Wellington property produced a $1.4 million gain over the carrying value. The disposal reflected CPL's strategy of focussing on the industrial and bulk retail property categories.

The annual revaluation of the investment property portfolio resulted in an unrealised net increase of $30.0 million, almost double last year's comparative of $15.5 million. The increase occurred across the property portfolio with significant increases in the value of the Dunedin leasehold land portfolio and in the value of the company's Hamilton joint venture land.

Chairman's Review continued

CPL continues to specialise in investment in properties where there is the potential to enhance the rental income from further development. The refurbishment of the property in Ronwood Avenue, Manukau was completed during the year and the property is now fully tenanted. The adjoining property was also acquired for future development.

Through joint venture participation further properties have been acquired at Hamilton for development over time as planning changes permit. The Hamilton City Council continues to progress a District Plan variation that if implemented will change the potential land use for the joint ventures' land holdings. The Council's decision on the Plan variation should be available within the next two months.

CPL is continuing to work with the Dunedin City Council in order to progress planning for redevelopment of the Dunedin Harbourside area. The development plan for the area continues to be refined and improved. Further public consultation will be undertaken before the District Plan variation is publicly notified in early 2007.

CPL's investment property business is soundly based for future growth with an appropriate mix of investment and development property in the portfolio. Recent investment property acquisitions are consistent with the CPL strategy of maximising long-term shareholder value and returns.

The following table shows the geographical location of the Group's investment property at the end of the financial year:

Location	**2006 %**	**2005 %**
Dunedin	47%	49%
Auckland	33%	32%
Hamilton	20%	15%
Wellington	-	4%
Total	**100%**	**100%**

Performance targets

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

	Actual	**Target**	**Outcome**
Trade			
Cargo tonnage	2.8 million tonnes	2.8 million tonnes	Target achieved
Number of vessel arrivals	529 vessels	540 vessels	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Achieved	Achieved	Target achieved
Health & Safety			
Frequency rate *(lost time accidents per 100,000 work hours)*	1.5	1.8	Target achieved

Financial Performance

	Port Otago Group		**Port Operations**		
	Actual	**Target**	**Actual**	**Target**	
EBIT* return on assets	7.9%	9.2%	12.0%	15.2%	Target not achieved
Return on shareholders funds	27.7%	11.6%	13.5%	15.2%	Target achieved for the Group
Equity Ratio	56%	58%	42%	54%	Target not achieved
Debt servicing ratio (times)	4.0	3.6	4.1	5.7	Target achieved for the Group

**Earnings before interest and taxation*

Port Otago's return on EBIT and shareholders funds was affected by the purchase of the shareholding in Lyttelton Port Company during the year. On a Group basis the significant increase in the value of the investment property portfolio resulted in an increased level of return.

Chairman's Review continued

Outlook

Continued growth within the Region's exporting sector, modern and up to date port infrastructure combined with the skills and commitment of our staff, means that Port Otago can continue to approach the future with confidence, despite the uncertainty created by consolidation occurring within the shipping industry. Our main aim over the coming year will be to work with each of our customers to lift our level of productivity and to improve efficiency within the supply chain.

Through acquisition and growth in property values Chalmers Properties has established a substantial and diversified property portfolio. The growth in rental income balances the investment in undeveloped land, which provides scope for significant future growth.

For and on behalf of the Board

John Gilks
Chairman
28 August 2006

Consolidated Statement of Financial Performance

For the year ended 30 June 2006

	Notes	Group		Parent Company	
		2006 $000	2005 $000	2006 $000	2005 $000
Revenue	1				
Port operations		43,117	39,978	45,293	41,854
Investment property		8,721	6,529	-	-
		51,838	46,507	45,293	41,854
Surplus before interest and taxation					
Port operations		12,022	10,757	14,122	12,633
Investment property		6,678	4,673	-	-
		18,700	15,430	14,122	12,633
Net interest		(4,114)	(2,858)	(2,575)	(1,736)
Operating surplus before taxation	2	14,586	12,572	11,547	10,897
Taxation	3	(4,509)	(4,223)	(3,277)	(3,116)
Net surplus after taxation		10,077	8,349	8,270	7,781
Unrealised net change in the value of investment property after tax	11	30,042	15,460	-	-
Net surplus after unrealised revaluations		**40,119**	**23,809**	**8,270**	**7,781**

The accompanying notes form part of these financial statements

Consolidated Statement of Movements in Equity

For the year ended 30 June 2006

	Notes	Group		Parent Company	
		2006 $000	2005 $000	2006 $000	2005 $000
Total recognised revenues and expenses:					
Net surplus		40,119	23,809	8,270	7,781
Distributed to owners:					
Dividend	21	(6,500)	(6,500)	(6,500)	(6,500)
Equity at beginning of the year		128,023	110,714	51,932	50,651
Equity at end of the year		**161,642**	**128,023**	**53,702**	**51,932**

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

As at 30 June 2006

	Notes	Group		Parent Company	
		2006 $000	2005 $000	2006 $000	2005 $000
Equity					
Share capital	4	20,000	20,000	20,000	20,000
Reserves	5	141,642	108,023	33,702	31,932
		161,642	128,023	53,702	51,932
Non current liabilities					
Borrowings (secured)	6	104,590	54,230	69,680	27,890
Employee entitlements	7	874	797	874	797
Deferred taxation	8	3,609	-	-	-
		109,073	55,027	70,554	28,687
Current liabilities					
Bank		-	-	2,627	-
Accounts payable	9	13,510	3,793	2,996	2,974
Employee entitlements	7	1,975	1,884	1,969	1,884
		15,485	5,677	7,592	4,858
Total equity and liabilities		**286,200**	**188,727**	**131,848**	**85,477**
Non current assets					
Fixed assets	10	82,335	72,558	82,312	72,548
Investment property	11	148,175	104,358	-	-
Property deposit		910	-	-	-
Secured advances	15	3,079	4,916	-	-
Shares in listed companies	12	36,944	-	36,944	-
Investment in subsidiaries	13	-	-	7,000	7,000
Intangible assets	14	-	348	165	967
		271,443	182,180	126,421	80,515
Current assets					
Bank		519	223	-	165
Receivables and prepayments	15	13,433	5,735	4,753	4,293
Stores and materials		368	378	368	378
Income tax		437	211	306	126
		14,757	6,547	5,427	4,962
Total assets		**286,200**	**188,727**	**131,848**	**85,477**

For and on behalf of the Board of Directors

J W Gilks
Chairman
28 August 2006

J D Miller
Director
28 August 2006

The accompanying notes form part of these financial statements

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Notes	Group		Parent Company	
		2006 $000	2005 $000	2006 $000	2005 $000
Cash flow from operations					
Cash was provided from:					
Receipts from port operations		42,565	42,501	42,641	42,577
Rental income		7,361	6,177	-	-
Dividend income received		-	-	2,100	1,800
Interest received		510	178	100	18
Cash was disbursed to:					
Payments to employees and suppliers		(28,021)	(27,142)	(26,540)	(25,711)
Interest paid		(4,499)	(2,926)	(2,623)	(1,684)
Income tax paid		(3,861)	(3,926)	(2,886)	(3,035)
Tax subvention payment		(55)	-	(55)	-
Net cash flows from operations	16	**14,000**	**14,862**	**12,737**	**13,965**
Cash flows from investing activities					
Cash was provided from:					
Sale of fixed assets		124	12	124	12
Sale of investment property		848	22	-	-
Advances repaid		7	693	-	-
Cash was applied to:					
Purchase of fixed assets		(13,685)	(11,059)	(13,664)	(11,058)
Purchase of investments		(36,944)	-	(36,944)	-
Interest capitalised		(335)	(65)	(335)	(65)
Purchase of investment property		(5,612)	(5,811)	-	-
Improvements to investment property		(3,423)	(425)	-	-
Advances to joint venture		(7)	(3,553)	-	-
Net cash flows from investing activities		**(59,027)**	**(20,186)**	**(50,819)**	**(11,111)**
Cash flow from financing activities					
Cash was provided from:					
Proceeds from borrowing		56,303	19,810	43,340	8,700
Cash was applied to:					
Repayment of borrowings		(4,480)	(7,950)	(1,550)	(5,030)
Dividends paid		(6,500)	(6,500)	(6,500)	(6,500)
Net cash flows from financing activities		**45,323**	**5,360**	**35,290**	**(2,830)**
Increase (decrease) in cash held		296	36	(2,792)	24
Cash held at beginning of year		223	187	165	141
Cash held at end of year		**519**	**223**	**(2,627)**	**165**

The accompanying notes form part of these financial statements

Statement of Accounting Policies

For the year ended 30 June 2006

Reporting Entity

Port Otago Limited (the "Company") is registered under the Companies Act 1993. Financial statements for Port Otago Limited and consolidated financial statements are presented. The consolidated financial statements comprise the Company, its subsidiaries and associates ("the Group"). The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

Measurement Base

The measurement base adopted is that of historical cost modified by the revaluation of certain assets.

Accounting Policies

The following accounting policies which significantly affect the measurement of profit and the financial position have been applied.

a) 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 are entities that are controlled, either directly or indirectly, by the Company. Associates are those entities in which the Company, either directly or indirectly, holds a significant but not a controlling interest.

Joint ventures

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

Goodwill arising on acquisition

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business. Goodwill is amortised on a straight-line basis over the shorter of its useful life or 20 years.

b) Fixed Assets and Depreciation

Fixed assets are recorded at cost less depreciation to date.

Depreciation is provided on a straight-line basis to write off the cost of the fixed assets over their estimated useful lives. The estimated useful lives are as follows:

Land improvements and buildings	10 - 50 years
Wharves, paving and dredging	15 - 40 years
Vessels and floating plant	5 - 20 years
Plant, equipment and vehicles	3 - 25 years
Computer software	1 - 3 years

c) Investment Property

Apart from capital work-in-progress, all investment properties are recorded at their net current value as determined annually by independent valuers. Net current value is the open market value less the costs of disposal that could reasonably be anticipated. Revaluation gains and losses are recognised directly in the statement of financial performance. In the year in which any properties are sold the difference between the net sale proceeds and the carrying amount is recognised in the statement of financial performance. Investment properties are not subject to depreciation.

Capital work-in-progress is recorded at previous valuation with additions at cost.

d) Investments in companies

Long-term investments are stated at cost. Where, in the opinion of the Directors, there has been a permanent diminution in the value of investments this is recognised as an unrealised loss in the Statement of Financial Performance.

Statement of Accounting Policies continued

For the year ended 30 June 2006

e) Accounts Receivable

Accounts receivable are stated at the estimated realisable value after making adequate provision for doubtful debts.

f) Stores and Materials

Stores and materials are valued at cost, on a weighted average basis, with appropriate allowances for obsolescence and deterioration.

g) Employee Entitlements

Provision is made in respect of the liability for annual leave, long service leave and retiring allowances. Annual leave is calculated on an actual entitlement basis at current rates of pay. Long service leave and retiring allowances are measured as the present value of the estimated future cash outflows to be made by the Company. The provision is affected by a number of estimates including projected interest rates, the expected length of service of employees and future levels of employee earnings.

h) Taxation

Income tax expense is charged in the statement of financial performance in respect of the current year's surplus after allowing for permanent differences.

Future tax benefits are determined on a comprehensive basis using the liability method. Future tax benefits attributable to timing differences or income tax losses are only recognised where there is virtual certainty of realisation.

i) Statement of Cash Flows

The following is the definition of terms used in the Statement of Cash Flows:

i) Cash means bank balances and cash on deposit with banks.

ii) Investment activities comprise the purchase and sale of fixed assets and investment properties and advances to/from subsidiary companies.

iii) Financing activities comprise the change in equity and debt structure of the Group and the payment of dividends.

iv) Operating activities include all transactions and events that are not investing or financing activities.

j) Derivative Financial Instruments

The Group uses interest rate swaps and fixed rate agreements to reduce its exposure to fluctuations in interest rates. The net differential paid or received on either swaps or fixed rate agreements is recognised as a component of interest expense over the period of the agreement.

Changes in Accounting Policies

There have been no changes in accounting policies during the year.

Notes to the Financial Statements

	Group		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
1. Revenue				
Port operating revenue includes:				
Gain on sale of assets	62	14	62	14
Dividend income from Chalmers Properties Limited	-	-	2,100	1,800
Investment property revenue comprises:				
Rental income	7,312	6,371	-	-
Gain on disposal of investment property	1,409	158	-	-
	8,721	6,529	-	-

2. Surplus Before Taxation

The surplus before taxation is stated after charging:

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Depreciation				
Land improvements	368	364	368	364
Buildings	446	431	446	431
Wharves and berth dredging	468	456	468	456
Plant, equipment and vehicles	2,558	2,250	2,550	2,241
Computer software	240	267	240	267
	4,080	3,768	4,072	3,759
Audit fees	60	55	46	44
Donations	42	28	42	28
Goodwill amortisation	101	101	101	101
Goodwill write-off	184	-	184	-
Bad debts	2	32	2	5
Directors' remuneration	338	247	203	162
Loss on disposal of assets	101	-	101	-
Operating leases	1,280	1,120	1,268	1,108
Net interest expense				
Interest expense	4,596	3,064	2,675	1,754
Less interest income	(482)	(206)	(100)	(18)
	4,114	2,858	2,575	1,736

Notes to the Financial Statements continued

	Group		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000

3. Taxation

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Surplus before taxation	14,586	12,572	11,547	10,897
Permanent differences	(895)	149	(1,613)	(1,537)
Taxable income	13,691	12,721	9,934	9,360
Taxation @ 33%	4,517	4,198	3,278	3,089
Under/(over) provision in prior years	(8)	25	(1)	27
Taxation charge	**4,509**	**4,223**	**3,277**	**3,116**
The taxation charge is represented by:				
Current taxation	3,688	3,953	2,760	3,068
Deferred taxation	821	270	517	48

During the year the Company and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer tax losses to the Company. In conjunction with the tax loss transfer the Company made a subvention payment of $55,000 to the ORC. The consequence of the tax loss transfer and the subvention payment was a $57,000 reduction in income tax payments in the current year.

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
The movements in the imputation credit account are:				
Credits available at the beginning of the year	20,402	19,675	18,821	18,096
Imputation credits attached to dividends received	-	-	1,034	887
Income tax payments	3,861	3,926	2,886	3,035
Imputation credits attached to dividends paid	(3,201)	(3,201)	(3,201)	(3,201)
Prior year adjustment	(5)	2	(4)	4
Credits available at end of year	**21,057**	**20,402**	**19,536**	**18,821**

4. Share Capital

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $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.

5. Reserves

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Property revaluation reserve:				
Balance at beginning of year	61,129	45,727	-	-
Transfers from/(to) retained earnings:				
Realised on property sold	(1,559)	(58)	-	-
Change in value of investment property (see note 11)	32,893	15,460	-	-
Property revaluation reserve	92,463	61,129	-	-
Retained earnings	49,179	46,894	33,702	31,932
Total reserves	**141,642**	**108,023**	**33,702**	**31,932**

Notes to the Financial Statements continued

6. Borrowings

Borrowings are secured and comprise amounts owing to ANZ National Bank Limited.

The Group has a $147 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 30 September 2008. The facility is reviewed annually on the 30 September of each year, with a view to extending the expiry of the facility for successive periods of one year.

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

At 30 June 2006, $104.6 million (last year: $54.2 million) was drawn which, after allowing for interest rate swaps, was:

- on effective terms ranging from on call to 10 years (last year: call to 9 years), and
- at effective interest rates ranging from 5.9% to 7.7% per annum (last year: 5.9% to 7.4% per annum).

	Group		Parent Company	
	2006 $000	**2005 $000**	**2006 $000**	**2005 $000**

7. Employee Entitlements

Balance at beginning of year	2,681	2,441	2,681	2,436
Additional provision made	1,273	1,275	1,267	1,267
Amount utilised	(1,105)	(1,035)	(1,105)	(1,022)
Balance at end of year	**2,849**	**2,681**	**2,843**	**2,681**
The balance is classified as:				
Current	1,975	1,884	1,969	1,884
Non current	874	797	874	797

The provision for employee entitlements relates to employee benefits such as accrued annual leave, long service leave and retiring allowances.

8. Deferred Taxation

Balance at beginning of year	-	-	-	-
Reclassified from future tax benefit (see note 14)	(63)	-	-	-
Under provision for prior years' tax	12	-	-	-
Tax on current year timing differences	809	-	-	-
Tax on investment property revaluations	2,851	-	-	-
Balance at end of year	**3,609**	**-**	**-**	**-**

9. Accounts Payable

Accounts payable	3,160	1,761	2,031	1,547
Other accrued charges	1,661	2,032	965	1,427
Vendor mortgage payable	1,463	-	-	-
Property purchase payable	7,226	-	-	-
	13,510	**3,793**	**2,996**	**2,974**

Notes to the Financial Statements continued

10. Fixed Assets

	Group 2006 $000	Group 2005 $000	Parent Company 2006 $000	Parent Company 2005 $000
Land and improvements				
at cost	20,974	20,373	20,974	20,373
accumulated depreciation	(3,759)	(3,391)	(3,759)	(3,391)
	17,215	16,982	17,215	16,982
Buildings				
at cost	17,220	16,825	17,220	16,825
accumulated depreciation	(3,221)	(2,797)	(3,221)	(2,797)
	13,999	14,028	13,999	14,028
Wharves and berth dredging				
at cost	20,244	18,513	20,244	18,513
accumulated depreciation	(6,757)	(6,289)	(6,757)	(6,289)
	13,487	12,224	13,487	12,224
Plant, equipment and vehicles				
at cost	54,609	41,015	54,536	40,964
accumulated depreciation	(19,468)	(17,122)	(19,418)	(17,081)
	35,141	23,893	35,118	23,883
Computer software				
at cost	2,997	2,643	2,997	2,643
accumulated depreciation	(2,526)	(2,286)	(2,526)	(2,286)
	471	357	471	357
Capital work in progress				
at cost	2,022	5,074	2,022	5,074
Total net carrying amount	**82,335**	**72,558**	**82,312**	**72,548**

The Company is following the statutory process to obtain a Certificate of Title for the 1997 Boiler Point reclamation. The Company has satisfactory title to all other assets.

The latest rating valuations, completed in 2004 (last year: 2001) indicate a value for land and buildings as follows:

	2006 $000	2005 $000
Group and parent:		
Rating valuation with subsequent additions at cost	43,354	43,114
Comparative cost less depreciation to date	31,214	31,010

Based on an independent valuation of the Group's port related land and buildings as at 30 June 2005, the Directors consider that $67 million is an indication of fair value for port related land (including improvements) and buildings.

Notes to the Financial Statements continued

11. Investment Property

	Group 2006 $000	Group 2005 $000
Unrealised net change in the value of investment property after tax	30,042	15,460
Add back: deferred tax on revaluations	2,851	-
Change in value of investment property	32,893	15,460
Other movements:		
Property improvements during year	3,508	354
Property purchased	11,901	5,795
Property sold	(4,485)	(132)
Balance at beginning of year	104,358	82,881
Balance at end of year	**148,175**	**104,358**
Comprising:		
Property portfolio at cost	57,004	43,229
Revaluation	91,171	61,129
	148,175	104,358
Valuation analysis		
Valued at 30 June balance date as determined by:		
Barlow Justice Limited	4,056	3,485
Colliers International	65,925	47,452
DTZ New Zealand Limited	19,800	22,662
Guy Stevenson & Petherbridge Limited	31,785	17,132
Seagar & Partners (Manukau) Limited	23,600	13,626
Property recorded at net current value	145,166	104,357
Capital work-in-progress at previous valuation with additions at cost	3,009	1
	148,175	104,358

Apart from capital work-in-progress, the Company's investment properties were revalued at balance date in accordance with valuation reports prepared by independent registered valuers.

Property valuations include an allowance for disposal costs.

Notes to the Financial Statements continued

12. Shares in Listed Companies

During the year ended 30 June 2006, Port Otago Limited purchased a 15.47% stake in Lyttelton Port Company Limited ("LPC") at a cost of $36.9 million. Of this stake, 7.95% was acquired on 9 March 2006 pursuant to off-market transactions with: (i) AMP Capital Investors subject to a 6 month price escalation clause and an obligation for the Company to pay the vendor any profit on the sale of those shares if sold within 6 months; and (ii) ING, Salvus Strategic Investments Limited and Forbar Custodians subject to a 6 month escalation clause.

In relation to the takeover offer for LPC by Christchurch City Holdings Limited an Independent Adviser's Report was prepared by Crighton Anderson Corporate Finance Limited in March 2006. This independent report assessed the fair value range for LPC shares of $2.15 to $2.45. The average cost price for the Company's 15.47% stake in LPC amounts to $2.33 per share. As at 30 June 2006 the prevailing sharemarket price for LPC shares was $2.02.

Directors consider the Company's recorded cost for the LPC shares approximates fair value at balance date since:

- the cost price falls within the fair value range assessed by Crighton Anderson Corporate Finance Limited, and
- LPC shares were thinly traded around balance date and market prices may not reflect the premium associated with the shareholding.

13. Investment in 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)
Associates			
Hamilton JV Investment Company Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.2 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.3 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.4 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.5 Limited	50%	30 June	Dormant (non trading)
Ormiston Road JV Company Limited	50%	30 June	Property trustee (non trading)
Joint ventures			
HarbourCold Dunedin	50%	30 June	Cold store operation
The Hamilton Joint Venture	50%	30 June	Property investment
Hamilton JV Number 2	50%	30 June	Property investment
Hamilton JV Number 3	50%	30 June	Property investment
Hamilton JV Number 4	50%	30 June	Property investment
Ormiston Road Joint Venture	50%	30 June	Property investment

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

The financial statements include the relevant interest in each joint venture's assets and liabilities at 30 June 2006 along with the share of trading for the relevant period.

Notes to the Financial Statements continued

	Group		Parent Company	
	2006 $000	**2005 $000**	**2006 $000**	**2005 $000**
14. Intangible Assets				
Future tax benefit:				
Balance at beginning of year	63	333	682	730
Over/(under) provision for prior years' tax	-	(8)	43	10
Tax on current year timing differences	-	(262)	(560)	(58)
Transfer to deferred tax (see note 8)	(63)	-	-	-
Balance at end of year	-	63	165	682
Goodwill:				
Balance at beginning of year	285	386	285	386
Current year amortisation	(101)	(101)	(101)	(101)
Write-off of goodwill	(184)	-	(184)	-
Balance at end of year	-	285	-	285
Total intangible assets	**-**	**348**	**165**	**967**

15. Receivables and Prepayments

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Trade receivables	5,253	5,194	4,505	4,005
Property disposal receivable	6,066	-	-	-
Amount owing by subsidiary	-	-	30	38
Prepayments	278	541	218	250
Secured advances	1,836	-	-	-
	13,433	**5,735**	**4,753**	**4,293**

Property disposal receivable

The property disposal receivable at balance date relates to the sale by Chalmers Properties Limited of its 256 Lambton Quay, Wellington investment property. This property is subject to an unconditional sale and purchase agreement and a $600,000 deposit was received prior to balance date with settlement of the balance due 27 September 2006.

Secured advances

Secured advances of $4,915,000 at 30 June 2006 (last year: $4,916,000) comprise a non-current portion of $3,079,000 (last year: $4,916,000) and, included within Receivables and Prepayments, a current portion of $1,836,000 (last year: nil).

These advances are secured against property and are part of funding arrangements for the property joint ventures in which the Group participates.

Notes to the Financial Statements continued

	Group		Parent Company	
	2006 $000	**2005 $000**	**2006 $000**	**2005 $000**

16. Cash Flow from Operations

The reconciliation between the net surplus and the cashflow from operations is:				
Net surplus	40,119	23,809	8,270	7,781
Non-cash/investing items:				
Unrealised net change in the value of investment property (see note 11)	(32,893)	(15,460)	-	-
Depreciation	4,080	3,768	4,072	3,759
Goodwill amortisation and write-off	285	101	285	101
Loss/(gain) on sale of fixed assets	39	(12)	39	(12)
Loss/(gain) on disposal of investment property	(1,409)	(158)	-	-
Non current employee entitlements	77	33	77	33
Deferred taxation	3,672	270	517	48
Changes in working capital:				
Receivables and prepayments	(871)	2,539	(460)	2,573
Accounts payable and current employee entitlements	1,118	1	107	(295)
Income tax receivable	(227)	27	(180)	33
Stores and materials	10	(56)	10	(56)
Net cash flow from operations	**14,000**	**14,862**	**12,737**	**13,965**

17. Capital Expenditure Commitment

At 30 June 2006 the Group had commitments/approvals for capital expenditure of $21.1 million (last year: $10.5 million).

Included within capital commitments is $8.1 million representing the Chalmers Properties Limited 50% share, via joint venture participation, in a conditional contract to purchase land at Hamilton. The contract will only become unconditional upon achieving a rezoning upon terms and conditions acceptable to the joint venture.

The remaining capital expenditure of $13.0 million mainly relates to improvements to the port's infrastructure and assets.

Notes to the Financial Statements continued

18. Contingencies

Apart from the matters noted below, there are no contingent liabilities at 30 June 2006 (last year: nil).

Guarantees

As part of contractual arrangements for the purchase of a ship-to-shore container crane the ANZ National Bank Limited had issued guarantees of US$0.5 million which expire as at 31 December 2006 and US$4.6 million which expire as at 31 December 2007, at the request of the Group. While the Group has indemnified the ANZ National Bank Limited against any claims made pursuant to the guarantees, the possibility of such claims occurring is considered remote.

Port Noise

The Company has an obligation under the Port Noise Management Plan and the requirements within the Dunedin City Council District Plan to either carry out acoustic treatment or contribute to acoustic treatment of certain properties in Port Chalmers. The Company has an obligation to purchase residential properties within the 65dBa noise zone. The Company's obligation to carry out or contribute to acoustic treatment of residential properties varies depending on the level of noise received from the port. The Company is unable to reliably assess its future obligation since the extent and timing of property purchases and noise mitigation expenditure will depend on the decisions of individual property owners.

Financial Arrangement

The Group has a 50% interest in certain Hamilton Joint Ventures. This interest is accounted for in accordance with note 13. The Group has agreed in principle to an incentive arrangement with a member of the Group's senior management. The terms and conditions of the arrangement are under consideration, but may involve up to 10% of the changes in value of part of the property controlled by the Joint Venturers, of which the Group's share is one half, i.e. 5%.

The final outcome is dependent on continuing negotiations. Until such time as negotiations are advanced further the nature of the agreement and the financial impact on the Group cannot be determined. Provided negotiations can be completed and the necessary approvals obtained the arrangement will be recognised in the financial year ending 30 June 2007.

Notes to the Financial Statements continued

19. Transactions with Related Parties

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

	Group		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
Related party revenue/(expenditure) transactions during the year:				
• Otago Regional Council				
Contribution towards operation of Harbour Control Centre	60	60	60	60
• Chalmers Properties Limited				
Administration services provided	-	-	132	76
Interest revenue	-	-	20	7
Interest expense	-	-	(29)	(12)

Amounts receivable from related parties are included in note 15.

b) Other related party transactions:

Director(s)	Related Party	Nature of relationship
J W Gilks	Director of City Forests Limited	Customer of the Group
J W Gilks	Director of Aurora Energy Limited	Lease of property from Group
J W Gilks	Director of Delta Utility Services Limited	Supplier to the Group Lease of property from Group
D R Black	Director of Farra Dunedin Engineering Limited	Supplier to the Group Lease of property from Group
E G Johnson	Chairman of Fulton Hogan Group	Supplier to the Group Lease of property from Group

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

	Group		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
• **City Forests Limited**				
Port facility revenue	372	248	372	248
• **Aurora Energy Limited**				
Property rental	38	38	-	-
• **Delta Utility Services Limited**				
Property rental	1	1	1	1
Maintenance expense	(13)	(12)	(13)	(12)
Capital expenditure	(231)	(52)	(231)	(52)
• **Farra Dunedin Engineering Limited**				
Property rental	21	21	-	-
Maintenance expense	(46)	(22)	(46)	(22)
Capital expenditure	(27)	(64)	(27)	(64)
• **Fulton Hogan Group companies**				
Property rental	31	23	31	23
Transport and warehouse revenue	2	16	2	16
Maintenance and waste disposal costs	(137)	(147)	(137)	(147)
Capital expenditure	(103)	-	(103)	-

Notes to the Financial Statements continued

19. Transactions with Related Parties (continued)

Related party receivable/(payable) at year end:

	Group		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
• **City Forests Limited**				
Receivable	102	5	102	5
• **Aurora Energy Limited**				
Receivable	-	2	-	-
• **Delta Utility Services Limited**				
Receivable	6	-	-	-
Accounts payable	(1)	(3)	(1)	(3)
• **Farra Dunedin Engineering Limited**				
Receivable	6	6	-	-
• **Fulton Hogan Group companies**				
Receivable	1	4	1	4
Accounts payable	(9)	(27)	(9)	(27)

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.

20. Financial Instruments

a) The nature of the activities and management policies with respect to financial instruments are:

i) Interest rate risk

The Group has a term facility with ANZ National Bank Limited. Under the facility the Group may draw funding for terms ranging from call to the termination of the facility. Interest rate risk is managed by drawing funding over a range of maturities using interest rate swaps and through maintaining a balanced portfolio.

ii) Currency rate risk

The Group enters into foreign exchange contracts to hedge foreign currency transactions when purchasing major items of plant and equipment when payment is denominated in foreign currency. Gains and losses on such contracts are recognised as a component of the related transaction in the period in which the transaction is completed.

The principal amounts of derivative financial instruments outstanding at balance date were:

	Group		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
Interest rate swaps	64,200	47,750	34,650	28,200
Foreign currency forward exchange contracts	6,696	4,095	6,696	4,095

Foreign currency forward exchange contracts at 30 June 2006 are to cover United States dollar payments due under the contract for the purchase of a ship-to-shore container crane.

Notes to the Financial Statements continued

iii) Credit risk

In the normal course of its business the Group incurs credit risk from trade receivables. Reflecting the nature of the business the majority of the credit risk is concentrated on a small number of shipping line clients with one customer comprising 40% of port trade receivables. Regular monitoring of trade receivables is undertaken to ensure that the exposure remains within the Group's normal terms of trade.

iv) Market risk

The market value of shares in listed companies, as disclosed in note 12, will fluctuate as a result of changes in market prices. The market value of shares in listed companies may not represent fair value when there is a lack of market liquidity for the relevant stock or when market trading fails to reflect the premium associated with controlling a strategic ownership stake.

b) Fair values

The fair values of financial instruments do not differ by a material amount from the carrying values shown in the statement of financial position.

21. Dividends – Group and Parent Company

	2006 $000	2005 $000
Declared in respect of the current financial year:		
Interim dividend	2,500	2,500
Second interim dividend	2,500	2,500
Final dividend	1,750	1,500
Dividends for the financial year	**6,750**	**6,500**
Adjust for dividends declared after year end:		
2006 Final dividend declared August 2006	(1,750)	-
2005 Final dividend declared August 2005	1,500	(1,500)
2004 Final dividend declared August 2004	-	1,500
Dividend distributed to owners as disclosed in the Statement of Movements in Equity	6,500	6,500

22. Operating Leases - Group and Parent Company

	2006	2005
Minimum rental commitments for all non-cancellable operating leases are:		
Payable within one year	555	687
Payable within one to two years	108	532
Payable within two to five years	-	108
	663	**1,327**

Operating leases comprise leases of property and equipment leases.

23. Events Subsequent to Balance Date

Dividends

On 28 August 2006 the directors declared a final dividend of $1.75 million for the year ended 30 June 2006. Combined with interim dividends totalling $5 million this brings dividends paid and declared to $6.75 million for the full financial year (last year: $6.5 million).

Notes to the Financial Statements continued

24. New Zealand International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to International Financial Reporting Standards ("NZIFRS") will apply to all New Zealand entities for the periods commencing on or after 1 January 2007 with the opportunity to early adopt by up to two years.

Port Otago Limited intends to adopt NZIFRS for the year ending 30 June 2007. Accordingly, the adoption of NZIFRS will be first reflected in the Group's interim report for the six-month period ending 31 December 2006.

Port Otago Limited has commenced a project to identify the differences between existing New Zealand generally accepted accounting practice ("NZGAAP") and NZIFRS. The transition to NZIFRS is expected to impact the Group in the key areas summarised below. This summary should not be taken as an exhaustive list of all differences between existing NZGAAP and NZIFRS that will impact on the Company. The Group is not at a stage in its transition project to enable it to quantify the financial impacts on the financial results. It is possible that the actual impact of adopting NZIFRS may vary from the information presented below.

On transition to NZIFRS most of the adjustments required will be made against opening retained earnings.

Taxation
Under NZIFRS the deferred tax liability will be calculated using a "balance sheet" approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items. The current approach recognises differences between the accounting surplus and taxable income.

The most significant impact identified to date will be the recognition of a deferred tax liability in respect of the revaluation of the Group's investment property and in respect to classes of the port operating assets that are accounted for at fair value.

Fixed Assets
The Group currently records fixed assets at cost less depreciation to date. Under NZIFRS, an entity may elect to measure fixed assets at the date of transition to NZIFRS at their fair value and use that fair value as deemed cost. Port Otago Limited is completing a valuation of its port related land (including improvements), buildings and wharves so that fair value for these fixed assets can be used as their deemed cost at the Group's transition date of 1 July 2005.

Investment Properties
Investment properties are currently valued annually at market value less the estimated costs of disposal. Under NZIFRS investment properties will be measured at fair value.

The difference between fair value and market value is that disposal costs are not deducted to arrive at fair value. The result could be an increase in the value recorded for investment properties.

Hedge Accounting
The Group uses interest rate swaps to manage its interest rate risks. The net differential, paid or received, on those interest rate swaps is recognised as a component of interest expense or interest revenue over the period of the contract.

The Group uses foreign currency forward exchange contracts to manage currency rate risk. Currently gains and losses on such contracts are recognised as a component of the related transaction in the period in which the transaction is completed.

Under NZIFRS all derivative financial instruments, such as interest rate swaps and foreign currency forward exchange contracts, will be recognised at fair value in the statement of financial position. Changes in the fair value of the derivatives will be recognised in the statement of financial performance unless strict hedge criteria are met. If the criteria are met for cash flow hedge accounting, the unrealised gain or loss on the hedging derivative is deferred within equity and re-released to the statement of financial performance at the same time as the transaction it is hedging.

Report of the Audit Office

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

TO THE READERS OF PORT OTAGO LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of Port Otago Limited (the company) and group. The Auditor General has appointed me, Tony Uttley, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company and group, on his behalf, for the year ended 30 June 2006.

Unqualified opinion

In our opinion:

- The financial statements of the company and group on pages 7 to 25:
- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of:
  - the company and group's financial position as at 30 June 2006; and
  - the results of operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 28 August 2006, and is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

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

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2006. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Port Companies Act 1988 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) 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 Institute of Chartered Accountants of New Zealand.

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

A. Uttley

Tony Uttley
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Matters relating to the electronic presentation of the audited Financial Statements

This audit report relates to the financial statements of Port Otago Limited (the company) and group for the year ended 30 June 2006 included on Port Otago Limited's web site. The Port Otago Limited's Board is responsible for the maintenance and integrity of the company's web site. We have not been engaged to report on the integrity of the Port Otago Limited's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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/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 28 August 2006 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements 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 2006.

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 net surplus for the year, after unrealised revaluations, of $40.1 million compared to $23.8 million last year.

Dividends
A final dividend of $1.75 million will be paid on 1 September 2006, to give a total dividend for the year of $6.75 million.

Changes in Accounting Policies
There have been no changes in accounting policies during the year.

Directors
In accordance with the constitution Messrs G L Berry and J D Miller retired by rotation and were reappointed for a further term.

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

	Port Otago Limited $000	Chalmers Properties Limited $000	Total Group $000
J W Gilks (Chairman)	60	-	60
D R Black (Deputy Chairman)	30	-	30
R D Anderson	-	34	34
G L Berry	30	25	55
G P Hinton	-	20	20
E G Johnson	28	-	28
J D Miller	27	28	55
D Rillstone	28	-	28
V H Pooch	-	28	28
	203	**135**	**338**

Statutory Disclosure continued

Directors Interests

Directors have disclosed the following general interests for the year ended 30 June 2006 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
J W Gilks	Aurora Energy Limited	Director
	Botry – Zen Limited	Director
	Business in the Community Limited	Director
	Citibus Newton Limited	Director
	City Forests Limited	Director
	Delta Utility Services Limited	Director
	Dublin Bay Investments Limited	Director
	Dunedin City Holdings Limited	Director
	Fisher & Paykel Appliances Holdings Limited (and its wholly owned subsidiaries)	Director
	Fisher & Paykel Finance Limited (and its wholly owned subsidiaries)	Director
	K.M.K Storage Limited	Director
	Merlin Genesis Limited	Director
	Philip Laing House Limited	Director
	Receivables Management (N.Z.) Limited (and its wholly owned subsidiaries)	Chairman
G L Berry	Arcology Investments Limited	Director
	Avenue Estate Home No.3 Limited	Director
	Banco Properties Limited	Director
	Banco Trustees Limited	Director
	Berry & Co	Senior Partner
	Berry & Co Solicitors Nominee Limited	Director
	Chalmers Properties Limited	Director
	Land Purchase Company No.1 Limited	Director
	Millbrook Resort Property Companies	Director
	New Zealand Radiology Contract Services Limited	Director
	Pean Limited	Director
	Perpetual Properties Limited	Chairman
	Riverstone Holdings Limited	Director
	Shotover Nominees Limited	Director
	Southern Lakes Development Co. Limited	Director
	Southern Property Holdings Limited	Director
	Totara Irrigation Development Limited	Director
	Totaratahi Estate Limited	Director
	Waitaki District Health Services Limited	Chairman
D R Black	Clough Holdings Limited	Chairman
	Farra Engineering Limited	Chairman
	Forests Otago Limited	Chairman
	Lifevent Medical Limited	Chairman
	Otago Rescue Helicopter Trust	Chairman
	Timberlands West Coast Limited	Chairman
	Healthcare Otago Charitable Trust	Chairman

Statutory Disclosure continued

E G Johnson	Bank of New Zealand	Director
	CRL Energy Limited	Director
	Fulton Hogan Limited (and its wholly owned subsidiaries)	Chairman
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	Marlborough Airport Limited	Director
	MDC Holdings Limited	Director
	National Institute of Water and Atmospheric Research Limited	Director
	NIWA Natural Solutions Limited	Director
	NIWA Vessel Management Limited	Director
	Stone Farm Holdings Limited	Director
	Stone Farm Olives Limited	Director
J D Miller	Chalmers Properties Limited	Director
	Hamilton JV Investment Company Limited	Director
	Hamilton JV Investment Company No.2 Limited	Director
	Hamilton JV Investment Company No.3 Limited	Director
	Hamilton JV Investment Company No.4 Limited	Director
	Hamilton JV Investment Company No.5 Limited	Director
	Perpetual Property Limited	Director
	West Meadows Limited	Director
D Rillstone	Asquith Holdings Limited	Director
	Canterbury Trust Limited	Director
	Crosshill Farm Limited	Director
	Durran Holdings Limited	Director
	Hazlett & Sons Limited (and its wholly owned subsidiaries)	Director
	HH Rentals Limited	Director
	Kotare Vista Limited	Director
	Medic Limited	Director
	Moorhouse House and Garden Supplies Limited	Director
	Otago Trustee Company Limited	Director
	Oxford Venture Limited	Director
	Payton Holdings Limited	Director
	Riam Holdings Limited	Director
	Stonhan Holdings Limited	Director
	Waikouaiti Pastures Limited	Director

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 ($)	Number of employees *
410,001 – 420,000	1
230,001 – 240,000	1
180,001 – 190,000	1
150,001 – 160,000	1
140,001 – 150,000	1
130,001 – 140,000	2
120,001 – 130,000	3
110,001 – 120,000	3
100,000 – 110,000	3

** 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.*

Statutory Disclosure continued

Directors of Subsidiary Companies

The following persons held the office of director of the respective subsidiaries during the year. Directors' fees for Chalmers Properties Limited are shown under Directors' Remuneration. No directors' fees were payable by Perpetual Property Limited.

Companies	Directors for Both Companies
Chalmers Properties Limited	G L Berry (Chairman), R D Anderson
Perpetual Property Limited	G P Hinton, J D Miller, V H Pooch

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 2006 was $60,000 (last year: $55,000).

For and on behalf of the Board of Directors

J W Gilks
Chairman
28 August 2006

J D Miller
Director
28 August 2006

Five Year Summary

Trade analysis	**2006**	**2005**	**2004**	**2003**	**2002**
Number of ships	529	494	537	554	469
Cargo throughput (000's tonnes)	2,798	2,812	2,756	2,513	2,262

Financial comparisons	**2006 $000**	**2005 $000**	**2004 $000**	**2003 $000**	**2002 $000**
Revenue	51,838	46,507	44,616	39,964	35,885
Surplus from operations (EBIT)					
Port operations	12,022	10,757	11,581	10,691	8,667
Investment property	6,678	4,673	4,357	3,786	6,353
Total Group	18,700	15,430	15,938	14,477	15,020
Included in Surplus from operations:					
Unusual revenues/(expenses)	1,409	(100)	608	-	2,969
Surplus before tax	14,586	12,572	13,694	13,312	14,223
Net surplus after tax					
Port operations	6,170	5,981	6,784	6,512	5,729
Investment property	3,907	2,368	2,314	2,180	5,176
Total Group	10,077	8,349	9,098	8,692	10,905
Unrealised net change in value of investment property after tax	30,042	15,460	13,364	7,223	3,712
Net surplus after unrealised revaluations	40,119	23,809	22,462	15,915	14,617
Dividends for financial year	6,750*	6,500*	6,500*	6,100*	5,250*
Shareholders equity	161,642	128,023	110,714	94,352	83,687
Total assets					
Port operations	122,027	77,820	73,326	67,500	56,866
Investment property	164,173	110,907	86,283	66,143	51,184
Total Group	286,200	188,727	159,609	133,643	108,050
Shareholders equity	56%	68%	69%	71%	77%
Net asset backing per share	$8.08	$6.40	$5.54	$4.72	$4.18
Earnings per share (cents)	200.6	119.0	112.3	79.6	73.1
Dividends per share (cents)	33.8*	32.5*	32.5*	30.5*	26.3*
Return on equity**					
before unrealised revaluations	7.0%	7.0%	8.9%	9.8%	13.7%
after unrealised revaluations	27.7%	19.9%	21.9%	17.9%	18.4%
EBIT return on assets					
Port operations	12.0%	14.2%	16.5%	17.2%	16.0%
Investment property	4.9%	4.7%	5.7%	6.5%	13.1%
Total group	7.9%	8.9%	10.9%	12.0%	14.6%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 21

** Net surplus divided by average shareholders equity

Directory

Directors

John Gilks	*Chairman*
Ross Black	*Deputy Chairman*
George Berry	
Ed Johnson	
Jim Miller	
Dougal Rillstone	

Executive

Geoff Plunket	*Chief Executive*
Peter Brown	*Commercial Manager*
Bruce Trainor	*Port Operations Manager*
Wayne Muir	*General Manager, Port Otago Group Warehousing*
Lincoln Coe	*Technical Services Manager*
Hugh Marshall	*Marine Services Manager*
Andrew Taggart	*Chief Financial Officer*

Chalmers Properties Limited

Andrew Duncan	*Chief Executive*

Address

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PO Box 8
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 Caudwell
Burton & Co

Auditors

Audit New Zealand on behalf of the Auditor-General

PORT OTAGO LIMITED

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