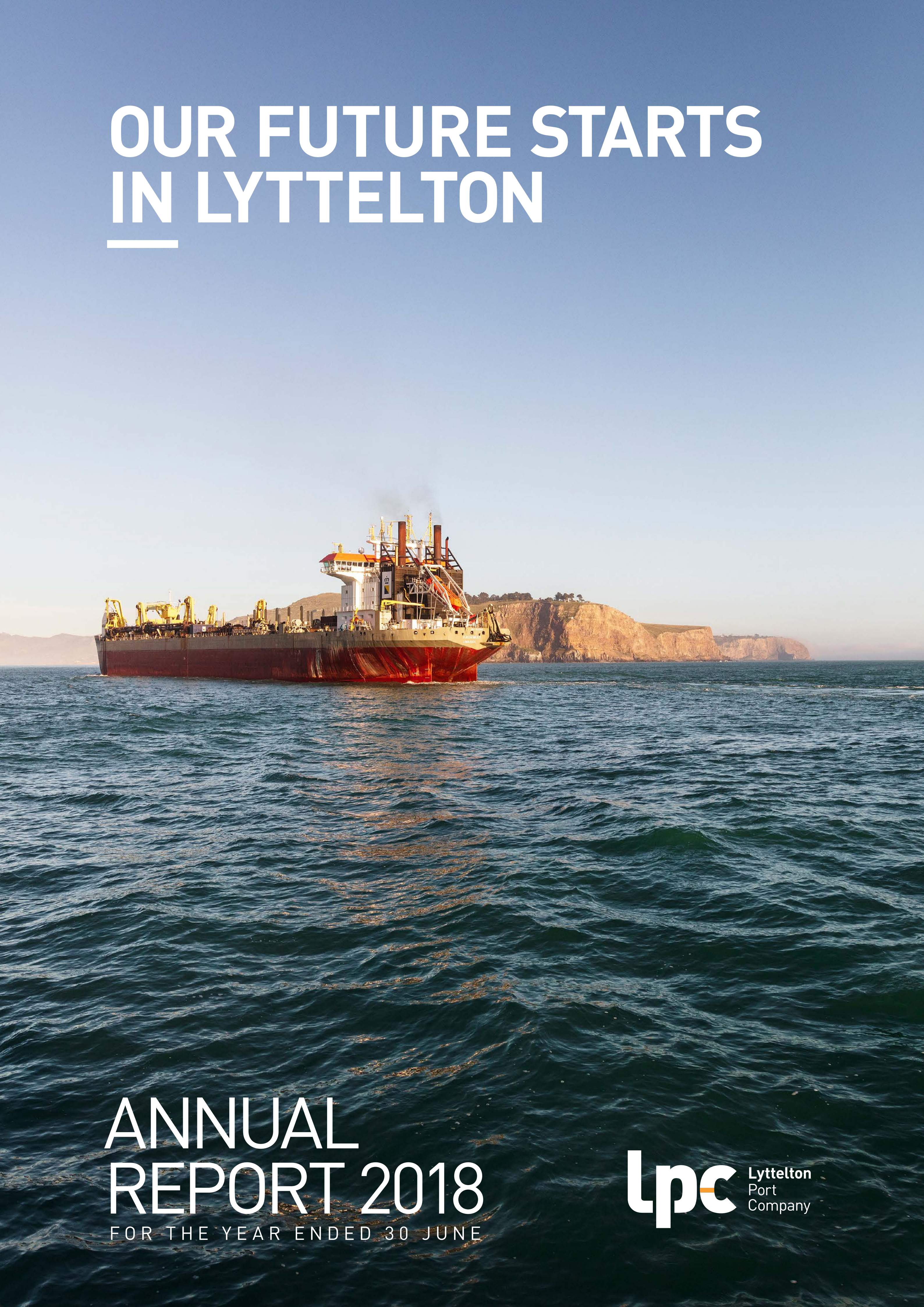
OUR FUTURE STARTS IN LYTTELTON



ANNUAL REPORT 2018

FOR THE YEAR ENDED 30 JUNE

Lyttelton Port Company

This is the Lyttelton Port Company (LPC) Annual Report for the financial year ending 30 June 2018. The report contains all information required to comply with our annual statutory reporting obligations including the full financial statements of LPC.

For more information about the Company, its achievements in 2018 and our future plans, please refer to our Annual Review on our website lpc.co.nz.

Front cover – One of the world's largest dredges the *Fairway* arriving at Lyttelton Port.

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FINANCIAL OVERVIEW

FINANCIAL OVERVIEW

The overall results for the Port reflect a couple of very important themes which we expect to continue over the coming years:

1. SIGNIFICANT CAPITAL INVESTMENT TO PREPARE THE PORT FOR ITS GROWTH BEYOND THE CURRENT CAPACITY OF THE CONTAINER TERMINAL

The Port invested over $72 million in capital projects during the year. These include a new building which now houses the vast majority of LPC employees in one place for the first time in LPC's history. We have also built a new Marina which is already close to capacity and is an important part of opening up the Lyttelton waterfront for our community. We have almost finished our post earthquake rebuild program which has included a 10 hectare reclamation, a new container wharf at Cashin Quay and significant repairs to other wharves/structures. We have also purchased and constructed MidlandPort at Rolleston.

The Port continues to invest in infrastructure to ensure we can meet the needs of our customers into the future. For the last 11 years the Container Terminal volume measured in TEU has grown on average by 7% per year. On current forecasts we will reach capacity in the mid 2020's. We have started work on projects that will increase the ability for the Port to service its customers now and into the future. These include channel deepening, land reclamation, a new Tug and Straddle Carriers as well as the repair of the Oil Wharf. All of these projects, and a number of others, will continue over the next three years resulting in hundreds of millions of dollars of spend and an asset the region can be proud of.

From an accounting perspective this means that we have a lot of assets on our balance sheet. As with any business it will take time for these assets to make a return because they are all very new. Our forecasting shows that over time they will add shareholder value as well as provide critical infrastructure for the region. In the meantime we are forecasting Net Profit to remain relatively low as depreciation costs are high and we move from having cash in the bank to borrowing money to fund our investments. However we are forecasting strong cash flow as operating profit increases in line with growth.

The 2018 Financial Year showed strong revenue growth even after a strike during the year which meant cargo had to be turned away. Profitability was impacted by the strike and a step change increase in cargo handlers to ensure we could provide the four crane service our customers need. We also incurred costs in relation to MidlandPort, increased fuel costs and our major litigation. Finally our interest income is declining as our significant cash balance is being spent on new and reinstatement assets. Moving forward we have planned a number of initiatives that we expect to increase our profitability and leverage our top line growth.

2. THE CONSTRUCTION OF A NEW CRUISE BERTH FOR CANTERBURY

We have come to an agreement with our Shareholder to construct a Cruise Berth for Canterbury. After doing our due diligence on the berth, it was clear that it would be challenging for it to make a full commercial return. We discussed this with our Shareholder and agreed a solution for the build to proceed.

The Company continues to review the assumptions on the projected cost of the construction of the Cruise Berth and its associated returns. Current forecasts show that the Cruise Berth may not make an economic return. If these forecast assumptions do not change, it is likely that in the 2019 financial year, the Cruise Berth will be impaired.

LPC has agreed with its Shareholder that it should proceed with the construction of the berth but any return which is less than commercial will be reflected in lower dividends.

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FINANCIAL STATEMENTS

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2018

In the opinion of the Directors of Lyttelton Port Company Limited, the consolidated financial statements and notes on pages 6 to 31;

- comply with New Zealand equivalents to International Financial Reporting Standards and fairly present the financial position of the Group as at 30 June 2018, and the results of their operations and cash flows for the year ended on that date; and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group, and facilitate compliance of these consolidated financial statements with the Companies Act 1993 and Financial Reporting Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of these consolidated financial statements.

The Directors are pleased to present the consolidated financial statements of Lyttelton Port Company Limited and its subsidiaries for the year ended 30 June 2018.

For and on behalf of the Board of Directors:

Trevor Burt
Director
17 August 2018

Brian Wood
Director
17 August 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

These Financial Statements should be read in conjunction with the notes to the financial statements

In thousands of New Zealand dollars	Notes	2018	2017
Revenue		122,173	114,424
Employee expenses		(56,709)	(51,415)
Materials and consumables utilised		(28,109)	(24,924)
Depreciation and amortisation	7, 8	(13,030)	(13,233)
Administrative and other expenses	4	(10,364)	(10,935)
RESULTS FROM OPERATING ACTIVITIES		**13,961**	**13,917**
Net financing income	5	4,164	5,170
Profit before tax for the year		**18,125**	**19,087**
Income tax (expense)	6	(5,909)	(4,640)
Profit for the year		**12,216**	**14,447**
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Effective portion of changes in fair value of cash flow hedges – gross of tax		314	153
Income tax on other comprehensive income		(88)	(43)
Total comprehensive income for the year		**12,442**	**14,557**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

These Financial Statements should be read in conjunction with the notes to the financial statements

In thousands of New Zealand dollars	Notes	2018	2017
ASSETS			
Property, plant and equipment	7	391,090	336,347
Intangible assets	8	16,330	10,542
Prepayments		270	510
Deferred tax asset/(liability)	9	–	1,047
Total non-current assets		**407,690**	**348,446**
Cash and cash equivalents	11	16,911	17,031
Short term deposits	11	63,000	117,000
Trade and other receivables		17,728	16,941
Prepayments		3,487	1,404
Interest receivable		616	1,619
Inventories		3,431	3,581
Loans and advances		400	84
Derivatives		260	–
Total current assets		**105,833**	**157,660**
Total assets		**513,523**	**506,106**
EQUITY			
Share capital	10	21,457	21,457
Cash flow hedge reserve	10	182	(44)
Retained earnings		460,621	457,015
Total equity		**482,260**	**478,428**
LIABILITIES			
Other non current liabilities		714	–
Deferred lease income	9	544	–
Derivatives	11	8	–
Employee entitlements		448	316
Total non-current liabilities		**1,714**	**316**
Trade and other payables	11	15,033	13,174
Employee entitlements		10,641	12,470
Derivatives	11	–	61
Deferred lease income		–	171
Other current liabilities		47	–
Income tax payable/(receivable)		3,828	1,486
Total current liabilities		**29,549**	**27,362**
Total liabilities		**31,263**	**27,678**
Total equity and liabilities		**513,523**	**506,106**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

These Financial Statements should be read in conjunction with the notes to the financial statements

In thousands of New Zealand dollars	Share capital	Cash flow hedge reserve	Retained earnings	Total
Balance at 1 July 2016	**21,457**	**(154)**	**447,805**	**469,108**
PROFIT FOR THE YEAR	–	–	14,447	14,447
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Effective portion of changes in fair value of cash flow hedges – net of tax	–	110	–	110
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY				
Dividends to equity holders	–	–	(5,237)	(5,237)
Balance at 30 June 2017	**21,457**	**(44)**	**457,015**	**478,428**
PROFIT FOR THE YEAR	–		12,216	12,216
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Effective portion of changes in fair value of cash flow hedges – net of tax	–	226	–	226
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY				
Dividends to equity holders	–	–	(8,610)	(8,610)
Balance at 30 June 2018	**21,457**	**182**	**460,621**	**482,260**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

These Financial Statements should be read in conjunction with the notes to the financial statements

In thousands of New Zealand dollars	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		121,262	113,157
Cash paid to suppliers and employees		(97,548)	(85,180)
Interest and facility fees paid		(121)	(25)
Interest received		5,288	7,715
Subvention payments	15, 18	(7,325)	(4,145)
Income tax paid		5,262	(2,426)
Net cash from operating activities	14	**26,818**	**29,096**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		72	378
Net investment in short term deposits		54,000	33,000
Acquisition of property, plant and equipment	7	(65,606)	(51,826)
Acquisition of intangible assets	8	(6,794)	(3,572)
Net cash used in investing activities		**(18,328)**	**(22,020)**
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid	10, 15	(8,610)	(5,237)
Net cash from financing activities		**(8,610)**	**(5,237)**
Cash and cash equivalents at 1 July		**17,031**	**15,192**
Net increase/(decrease) in cash and cash equivalents		(120)	1,839
Cash and cash equivalents at 30 June		**16,911**	**17,031**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES

1. REPORTING ENTITY

Lyttelton Port Company Limited (the "Company") is a Company domiciled in New Zealand, is a Port Company under the Port Companies Act 1988, and is registered under the Companies Act 1993. The financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013.

The Company's registered office is at Waterfront House, 37-39 Gladstone Quay, Lyttelton 8082, New Zealand. These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). The Group is primarily involved in providing and managing port services and cargo handling facilities. The Company is a profit-oriented entity.

2. BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other Financial Reporting Standards as applicable to profit-oriented entities. They were authorised for issue by the Company's Board of Directors on 17 August 2018.

Details of the Group's accounting policies, including changes during the year, are included in note 3.

(b) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair value.

(c) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in New Zealand dollars (NZ$), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) USE OF ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the year ending 30 June 2018 is included in:

Note 7 – property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments that are not at fair value through profit or loss, are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term deposits maturing in less than three months and call deposits. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Other

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, commodity price and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

(b) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment (note 7). Certain comparatives have been re-presented within Note 7, Property, Plant, & Equipment, to conform with the current period's presentation.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Derecognition

In the event that an asset or part of an asset is damaged and not expected to be able to be used to generate future economic benefits, then it is derecognised as an asset and the carrying value, or part thereof, is charged to profit or loss as 'assets written off'.

(iv) Capital work in progress

Capital work in progress comprises all costs directly attributable to the construction of an asset including cost of materials, professional services, direct labour, finance costs and an appropriate allocation of overhead. Costs cease to be capitalised as soon as the asset, or a significant component of the asset, is in the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) REVENUE

Revenue is measured at the fair value of the consideration received or receivable, net of allowances, trade discounts and volume rebates.

Services

Revenue from services is recognised in profit or loss when the service is performed. Where services are in progress at the reporting date, revenue is recognised in profit or loss in proportion to the stage of completion of the service at that date.

3. SIGNIFICANT ACCOUNTING POLICIES CONT.

(d) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested and gains on derivative instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, bank fees and the ineffective portion of derivative instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except with regards to borrowing costs on qualifying assets which are capitalised as part of the cost of those assets.

(e) DREDGING COSTS

Maintenance dredging costs are recorded as a prepayment and expensed over the period of benefit, which has been assessed as one to five years.

(f) INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

LPC has applied all new and revised accounting standards that are effective in the year but none had an impact on the financial statements.

There are a number of other new and amended accounting standards and interpretation not yet effective that will be adopted by LPC when they become mandatory. Those relevant to LPC include NZ IFRS 9 Financial Instruments, NZ IFRS 15 Revenue, and NZ IFRS 16 Leases. The financial impact of these standards has not yet been assessed.

	Effective for the financial year ending
NZ IFRS 9 Financial Instruments	30 June 2019
NZ IFRS 15 Revenue from Contracts with Customers	30 June 2019
NZ IFRS 16 Leases	30 June 2020

NZ IFRS 9 Financial Instruments addresses the classification and measurement of financial assets and liabilities, the impairment of financial assets, and hedge accounting. In respect of the impairment of financial assets, NZ IFRS 9 introduces an expected credit losses model, which assess losses on a forward-looking basis, taking into account historic loss experience and relevant macro-economic factors (Compared with current 'incurred losses' approach). The Group has reviewed NZ IFRS 9 and has concluded that applying the standard will not have a significant impact on the financial statements.

NZ IFRS 15 Revenue from Contracts with Customers – the new standard provides detailed revenue recognition guidance. The Group has reviewed the impact of NZ IFRS 15 and has identified that it will not have a significant impact on the financial statements. The initial assessment of the Group's revenue recognition is that revenue is already currently disaggregated appropriately for each key revenue component: stevedoring, wharfage, navigation services, rental revenue and transportation costs from inland ports.

NZ IFRS 16 Leases – effective for the Group for the period beginning 1 July 2019. The new standard introduces a single lessee accounting model that brings all leases on balance sheet except low-value or short-term leases. The Group is currently reviewing the impact of NZ IFRS 16. The assessment to date has identified operating leases that are currently off balance sheet that will be brought on balance sheet under NZ IFRS 16 through the recognition of right-of-use assets and associated liabilities. This recognition will result in lease expenses being classified as a finance cost and amortised, as opposed to only operating costs. Based on this assessment the Group does not expect there to be any material impact on the financial statements from adopting this standard. Many of the Group's leases have been identified as short-term or leases of low-value assets, and will qualify for an exemption from the new standard. The Group will not be early adopting NZ IFRS 16.

4. OTHER EXPENSES

In thousands of New Zealand dollars	2018	2017
Administrative and other expenses, including:	10,364	10,935
Auditor's remuneration to KPMG comprises:		
Audit of financial statements	98	99
Total auditor's remuneration	**98**	**99**
Net (gain)/loss on sale of property, plant and equipment	**257**	**(319)**

Also included in other expenses are fees payable to the OAG for audit related overhead of $6k (2017: $6k) and nil (2017: $1.3m) for the derecognition of capitalised design costs following a significant modification to the initial design and scope of a project.

5. FINANCE INCOME AND EXPENSES

In thousands of New Zealand dollars	2018	2017
Interest income on cash and cash equivalents	4,286	5,195
Bank facility fees	(57)	(25)
Interest paid on bank advances	(65)	–
Net finance expenses	**4,164**	**5,170**

6. INCOME TAX EXPENSE

In thousands of New Zealand dollars	2018	2017
Current tax expense		
Current period	5,628	10,218
Adjustment for prior periods	(1,222)	265
Total current tax expense	**4,406**	**10,483**
Deferred tax expense		
Origination and reversal of temporary differences	319	(5,713)
Adjustment for prior period	1,184	(130)
Total deferred tax expense/(credit)	**1,503**	**(5,843)**
Total income tax expense	**5,909**	**4,640**

Income tax has been calculated based on the tax rates and tax laws enacted or substantively enacted at balance date.

6. INCOME TAX EXPENSE CONT.

In thousands of New Zealand dollars	2018 RATE	2018 AMOUNT	2017 RATE	2017 AMOUNT
Profit after tax		12,216		14,447
Total income tax expense		5,909		4,640
Profit before tax		**18,125**		**19,087**
Income tax using the Company's domestic tax rate	28.0%	5,075	28.0%	5,345
Non-deductible expenses	3.2%	574	2.2%	426
Adjustments to deferred tax	1.6%	298	(6.6%)	(1,265)
(Over)/under provided in prior periods	(0.2%)	(38)	0.7%	134
Total income tax (credit)/expense	**32.6%**	**5,909**	**24.3%**	**4,640**

In thousands of New Zealand dollars	2018	2017
Income tax expense/(credit) on derivatives	(88)	(43)
Total income tax recognised directly in equity (Note 10)	**(88)**	**(43)**

In thousands of New Zealand dollars	2018	2017
Imputation credits at 1 July	24,514	25,889
New Zealand tax payments, net of refunds	(4,282)	662
Imputation credits attached to dividends paid	(3,348)	(2,037)
Imputation credits at 30 June	**16,884**	**24,514**

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

a) Imputation credits that will arise from the payment of provisional tax made subsequent to balance date which related to year end 30 June 2018,

b) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

c) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date. The consolidated amounts include imputation credits that would be available to the Company.

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of New Zealand dollars	Freehold land	Buildings	Land improvements & harbour structures	Plant, equipment & vehicles	Total
GROSS CARRYING AMOUNT					
Balance at 1 July 2016	**110,743**	**14,315**	**267,278**	**177,824**	**570,160**
Additions	–	7,211	12,251	33,181	52,643
Disposals	–	–	–	(4,700)	(4,700)
Balance at 30 June 2017	**110,743**	**21,526**	**279,529**	**206,305**	**618,103**
Additions	–	15,743	35,009	16,167	66,919
Disposals	–	(97)	(809)	(3,988)	(4,894)
Transfer	–	(1,733)	8,619	(3,614)	3,272
Balance at 30 June 2018	**110,743**	**35,439**	**322,348**	**214,870**	**683,400**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 July 2016	**(11,116)**	**(8,084)**	**(123,144)**	**(131,268)**	**(273,612)**
Depreciation expense	–	(436)	(5,014)	(7,332)	(12,782)
Disposals	–	–	–	4,638	4,638
Balance at 30 June 2017	**(11,116)**	**(8,520)**	**(128,158)**	**(133,962)**	**(281,756)**
Depreciation expense	–	(580)	(5,592)	(6,430)	(12,602)
Disposals	–	95	433	4,213	4,741
Transfer	–	(538)	(2,155)	–	(2,693)
Balance at 30 June 2018	**(11,116)**	**(9,543)**	**(135,472)**	**(136,179)**	**(292,310)**
CARRYING AMOUNTS					
Net book value as at 30 June 2017	**99,627**	**13,006**	**151,371**	**72,343**	**336,347**
Net book value as at 30 June 2018	**99,627**	**25,896**	**186,876**	**78,691**	**391,090**

7. PROPERTY, PLANT AND EQUIPMENT CONT.

A critical judgement in preparing these financial statements is the assessment of indicators of impairment. Should an indicator be identified a formal assessment of the recoverable amount of the asset or group of assets is required to be undertaken. As at 30 June 2018 having considered both internal and external indicators, including current and forecast profitability of the group, no indicators of impairment were identified.

The Directors have reviewed the assumptions on the projected cost of the construction of the Cruise Berth and its associated returns. Current forecasts show that the Cruise Berth may not make an economic return. If these forecast assumptions do not change, it is likely that in the 2019 financial year, the Cruise Berth will be impaired. LPC has agreed with its Shareholder that it should proceed with the construction of the berth but any return which is less than commercial will be reflected in lower dividends.

Included in the reconciliation above is "capital work in progress" of $67,743,000 (2017: $51,840,000) comprising $63,000 buildings, $55,482,000 land improvements & harbour structures, $9,133,000 plant, equipment & vehicles and $3,065,000 vessels.

During the year, the Group has commenced enabling works for a Cruise Berth.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date that they are available for use, except for capital work in progress. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings	5-50 years
• Harbour structures and land improvements	3-50 years
• Container cranes	30 years
• Plant equipment and vehicles	3-30 years
• Vessels	5-25 years
• Seawalls	100 years

8. INTANGIBLE ASSETS

In thousands of New Zealand dollars	Software	Easements & resource consents	Total
GROSS CARRYING AMOUNT			
Balance at 1 July 2016	**7,574**	**12,937**	**20,511**
Additions	(52)	3,624	3,572
Balance at 30 June 2017	**7,522**	**16,561**	**24,083**
Transfer	–	(3,272)	(3,272)
Additions	538	6,256	6,794
Balance at 30 June 2018	**8,060**	**19,545**	**27,605**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2016	**(6,226)**	**(6,545)**	**(12,771)**
Amortisation expense	(721)	(49)	(770)
Impairment expense	–	–	–
Balance at 30 June 2017	**(6,947)**	**(6,594)**	**(13,541)**
Amortisation expense	(260)	(168)	(428)
Transfer	–	2,694	2,694
Balance at 30 June 2018	**(7,207)**	**(4,068)**	**(11,275)**
CARRYING AMOUNTS			
Net book value as at 30 June 2017	**575**	**9,967**	**10,542**
Net book value as at 30 June 2018	**853**	**15,477**	**16,330**

Accumulated impairment included in the above is $5,837,000

Included in the reconciliation above is "capital work in progress" of $8,108,000 (2017: $9,383,000) comprising Easements and Resource consents $7,523,000 and Software $585,000.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of finite intangible assets, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- Computer software 3-10 years
- Easements and resource consents 5-35 years

9. DEFERRED TAX ASSETS AND LIABILITIES

In thousands of New Zealand dollars	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	11,594	4,227	(14,025)	(5,297)	(2,431)	(1,070)
Employee entitlements	2,015	2,574	–	–	2,015	2,574
Derivatives	–	17	(71)	–	(71)	17
Other items	218	240	(275)	(714)	(57)	(474)
Tax assets/(liabilities)	**13,827**	**7,058**	**(14,371)**	**(6,011)**	**(544)**	**1,047**

There are no unrecognised deferred tax assets or liabilities for the Group.

Movement in temporary differences during the year:

In thousands of New Zealand dollars	Balance 1 July 2016	Recognised in profit or loss	Recognised in equity	Balance 30 June 2017	Recognised in profit or loss	Recognised in equity	Balance 30 June 2018
Property, plant and equipment	(6,817)	5,747	–	(1,070)	(1,361)	–	(2,431)
Employee entitlements	2,524	50	–	2,574	(559)	–	2,015
Derivatives	60	–	(43)	17	–	(88)	(71)
Other items	(519)	45	–	(474)	417	–	(57)
Tax assets/(liabilities)	**(4,752)**	**5,842**	**(43)**	**1,047**	**(1,503)**	**(88)**	**(544)**

10. CAPITAL AND RESERVES

In thousands of New Zealand dollars	2018	2017
Share capital	**21,457**	**21,457**
Cash flow hedge reserve	**182**	**(44)**

At 30 June 2018 there were 102,261,279 shares on issue (2017: 102,261,279). All issued shares are fully paid and have no par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time by the Directors and are entitled to one vote per share at meetings of the Group. All shares rank equally with regard to the Groups' residual assets.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

DIVIDENDS

Dividends of $8.61m was paid by the Group during the year ended 30 June 2018 (2017: $5.2m).

11. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, and market risks arise in the normal course of the Group's business.

CREDIT RISK

Credit risk is the risk that the counterparty to an arrangement does not meet its obligations under the arrangement.

Management has a credit policy in place under which each new customer is individually analysed for credit worthiness and assigned a purchase limit before the standard payment and trading terms and conditions are offered. Purchase limits are reviewed on a regular basis.

In order to determine which customers are classified as having payment difficulties the Group considers duration and frequency of default and makes provision for specific balances considered to be impaired. The Group does not require collateral in respect of trade and other receivables.

The Group's exposure to credit risk is reflective of its customer base. The nature of the Group's business means that the top ten customers account for 69% of total Group revenue (2017: 66%). The Group is satisfied with the credit quality of these debtors and does not anticipate any non performance.

Cash handling and derivative transactions are only carried out with counterparties that have an investment grade credit rating.

The Group had significant cash balances as at 30 June 2018. The Group is exposed to default risk of the counterparty, and this risk is managed by the Group's Treasury Policy. The Treasury Policy limits the exposure to individual counterparty's based on class of institution and their individual credit ratings. The Policy also specifies a maximum exposure to each New Zealand registered bank of $100 million and $40 million with a minimum rating of AA- and A+ respectively.

LIQUIDITY RISK

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls and meet capital expenditure requirements.

NON CURRENT INTEREST BEARING BORROWINGS

Two facility agreements were signed on 30 April 2018. The revolving advance facility agreements were signed with Westpac New Zealand Limited and China Construction Bank Corporation (NZ) and total $100 million. One of the agreements has a five year duration and the other has a three year duration from commencement. At 30 June 2018, the Group had not drawn down on either of these facilities. The current and non-current borrowings are unsecured. The Group borrows under a negative pledge arrangement which requires certain certificates and covenants. The negative pledge deed sets out a minimum interest cover requirement (2.25 times EBITDA), a maximum gearing ratio percentage requirement (45%) and a coverage ratio. There have been no breaches of this negative pledge during the financial year.

MARKET RISK

Market risk is the risk that a movement in market prices impacts on the financial viability of the Group's business.

In accordance with its treasury policy the Group may enter into derivative arrangements in the ordinary course of business to manage foreign currency, interest rate and fuel price risks. A treasury management committee, made up of senior management supported by an independent advisor, provides oversight for risk management and derivative activities.

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk on purchases of capital equipment, operational supplies and bank accounts that are denominated in a currency other than the Company's functional currency, New Zealand dollars ($), which is the presentation currency of the Group. The foreign currencies in which transactions are primarily denominated are Australian dollars (AUD), U.S. dollars (USD) and Euro (EUR). The Group uses forward exchange contracts to hedge major foreign currency risk arising from payables or commitments in accordance with its policies. The Group's revenues are billed in NZD.

INTEREST RATE RISK

The Group's treasury policy requires that term borrowings are hedged within pre-approved thresholds by fixing the rates of interest in order to provide greater certainty. The Group uses interest rate swaps to manage these exposures.

FUEL PRICE RISK

The Group's treasury policy requires that fuel price exposures are assessed on a quarterly basis and may be hedged within pre-approved thresholds by fixing prices in order to provide greater certainty.

11. FINANCIAL INSTRUMENTS CONT.

QUANTITATIVE DISCLOSURES

(i) Credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due, or to avoid a possible past due status.

The majority of the Group's customers are New Zealand based agents or branches of international shipping lines servicing New Zealand importers and exporters. As such there are no concentrations of geographical risk outside New Zealand.

The status of trade receivables at the reporting date is as follows:

	2018		2017	
In thousands of New Zealand dollars	Gross receivable	Individually impaired	Gross receivable	Individually impaired
Not past due	11,840	–	11,287	–
Past due 1-60 days	4,398	–	5,232	–
Past due 61-90 days	630	–	170	–
Past due more than 90 days	925	65	559	307
Total	**17,793**	**65**	**17,248**	**307**

No trade and other receivables that were either past due or impaired are included in the higher risk category in the above table.

11. FINANCIAL INSTRUMENTS CONT.

(ii) Liquidity risk

The following table sets out the undiscounted contractual cash flows for all financial liabilities:

In thousands of New Zealand dollars	Carrying value	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
2018							
Trade and other payables	15,033	15,033	15,033	–	–	–	–
Non-derivative liabilities total	**15,033**	**15,033**	**15,033**	**–**	**–**	**–**	**–**
Forward exchange contracts – current	(260)	18,486	14,953	3,533	–	–	–
Forward exchange contracts – non current	8	10,423	–	–	5,690	4,733	–
Total	**14,781**	**43,942**	**29,986**	**3,533**	**5,690**	**4,733**	**–**
2017							
Trade and other payables	13,174	13,174	13,174	–	–	–	–
Non-derivative liabilities total	**13,174**	**13,174**	**13,174**	**–**	**–**	**–**	**–**
Forward exchange contracts – current	61	1,195	1,195	–	–	–	–
Forward exchange contracts – non current	–	–	–	–	–		
Total	**13,235**	**14,369**	**14,369**	**–**	**–**	**–**	**–**

11. FINANCIAL INSTRUMENTS CONT.

(iii) Interest rate risk – repricing analysis

The Group's exposure to repricing of its interest rate exposure can be summarised as follows:

In thousands of New Zealand dollars	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
2018						
Cash and cash equivalents	16,911	16,911	–	–	–	–
Short term deposits	63,000	63,000	–	–	–	–
Total	**79,911**	**79,911**	**–**	**–**	**–**	**–**
2017						
Cash and cash equivalents	17,031	17,031	–	–	–	–
Short term deposits	117,000	80,000	37,000	–	–	–
Total	**134,031**	**97,031**	**37,000**	**–**	**–**	**–**

Cash and short term deposits are restricted in their use of capital expenditure except $10m held for working capital.

CAPITAL MANAGEMENT

The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group maintains a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's policies in respect of capital management and allocation are reviewed, as required, by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

SENSITIVITY ANALYSIS

In managing interest rate, fuel price and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange, fuel prices and interest rates will have an impact on profit.

At 30 June 2018 it is estimated that an increase of 1.0% in interest rates would increase the Group's profit before income tax by approximately $1.0 million (2017: $1.5 million).

The Group is not exposed to any material profit variation from changes in exchange rates due to the nature of its operations and underlying forward exchange contracts.

FORECAST TRANSACTIONS

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2018 was a net asset of $252,000 (2017: liability of $61,000), comprising assets of $260,000 (2017: $Nil) and liabilities of $8,000 (2017: $61,000).

All financial assets and liabilities are classified as loans and receivables or at amortised cost respectively with the exception of derivatives which are classified as cash flow hedge instruments. The carrying value of all financial instruments is equivalent to fair value.

12. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

In thousands of New Zealand dollars	2018	2017
Less than one year	798	342
Between one and five years	6,741	352
More than five years	19,052	–
Total	**26,591**	**694**

During the year ended 30 June 2018 the Group recognised $0.3m as an expense in the Statement of Comprehensive Income in respect of operating leases (2017: $0.3m).

LEASES AS LESSOR

The Group leases a range of land, buildings and equipment to numerous customers. A number of leases include rights of renewal for further periods including "in perpetuity". There were no contingent rents recognised as income in the year. The future minimum lease payments under non-cancellable leases are as follows:

In thousands of New Zealand dollars	2018	2017
Less than one year	4,442	4,528
Between one and five years	21,143	15,149
More than five years	16,578	14,042
Total	**42,163**	**33,719**

13. CAPITAL COMMITMENTS

In thousands of New Zealand dollars	2018	2017
Commitments for the purchase of property, plant & equipment	86,723	27,450

The Directors are of the view that the Group is committed to capital expenditure as outlined in the Statement of Corporate Intent.

14. RECONCILIATION OF NET PROFIT FOR THE YEAR WITH NET CASH FROM OPERATING ACTIVITIES

In thousands of New Zealand dollars	2018	2017
Profit for the year	**12,216**	**14,447**
ADJUSTMENTS FOR:		
Depreciation and amortisation (including net loss on sale of property, plant and equipment)	13,030	13,233
Provision for Doubtful debt movement	257	–
Provision for Doubtful debt movement	230	–
Deferred tax charge	1,503	(5,799)
Non-current deferred lease revenue	–	(171)
Non-current loans and receivables	–	56
Capital creditors	(1,490)	(858)
Non-current prepayments	240	241
	13,770	**6,702**
ADD/(LESS) MOVEMENTS IN WORKING CAPITAL ITEMS:		
Change in tax payable	2,342	3,868
Change in inventories	150	(65)
Change in trade and other receivables	(1,504)	(456)
Change in interest receivable	1,003	2,520
Change in prepayments	(2,083)	319
Change in trade and other payables (including employee entitlements)	924	1,761
	832	**7,947**
Net cash flow from operating activities	**26,818**	**29,096**

15. RELATED PARTIES

PARENT AND ULTIMATE CONTROLLING ENTITY

Christchurch City Holdings Limited (CCHL) is the controlling shareholder of Lyttelton Port Company Limited. The ultimate controlling shareholder is Christchurch City Council (CCC).

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation comprised:

In thousands of New Zealand dollars	2018	2017
Short-term employee benefits	2,716	2,482
Long-term incentives	186	161

The Group does not provide any non-cash benefits to Directors and Executive Officers other than Directors' fees or salaries.

TRANSACTIONS WITH CONTROLLING SHAREHOLDER AND OTHER COMPANIES IN THE GROUP

In thousands of New Zealand dollars	2018	2017
Transactions with CCC		
Sales	6	29
Purchases	(148)	(210)
Rates	(744)	(577)
Subvention payment	(2,627)	(1,921)
Accounts payable	(3)	(28)
Accounts receivable	–	3
Transactions with CCHL		
Dividend	(8,610)	(5,237)
Transactions with other Group entities		
Sales	6	13
Purchases	(967)	(1,341)
Subvention payments	(4,698)	(2,224)
Accounts payable	(31)	(83)
Accounts receivable	–	–

16. GROUP ENTITIES

	Country	Interest (%)	
In thousands of New Zealand dollars		2018	2017
NZ Express (2005) Limited	New Zealand	100	100
Curries Proprietary Limited	New Zealand	100	100

17. CONTINGENT ASSETS

On 29 June 2015, LPC filed a statement of claim against Aon Ltd in the High Court. The claim centres on Aon's responsibilities in relation to LPC's insurance policies during the Canterbury Earthquakes. Aon filed its Statement of Defence on 4 August 2015. This refuted LPC's claims.

The Directors are confident in LPC's case, however they are unable to estimate LPC's chances of success or the final amount which may be awarded.

18. SUBVENTION PAYMENTS

During the year, subvention payments were made to the entities listed below. LPC is a member of the CCC Tax Group and pays subvention payments to other members of the CCC Group. It is LPC's policy, as a subsidiary of the CCC tax group, to treat the subvention payments as though they were payments of income tax with a corresponding reduction to taxation receivable/(payable).

– Christchurch City Council – $2,626,687 (2017: $1,921,380)

– Chch NZ Consolidated Group – $31,120 (2017: $Nil)

– Enable Services – $4,667,560 (2017: $2,223,882)

19. SUBSEQUENT EVENTS

There were no material subsequent events.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE READERS OF LYTTELTON PORT COMPANY GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Lyttelton Port Company Limited group (the Group). The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG, to carry out the audit of the financial statements of the Group on his behalf.

OPINION

We have audited the financial statements of the Group on pages 6 to 31, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2018; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.

Our audit was completed on 17 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Port Companies Act 1988.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue and auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional

INDEPENDENT AUDITOR'S REPORT CONT.

judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on page 1, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Graeme Edwards
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

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CORPORATE GOVERNANCE

LYTTELTON PORT COMPANY STRIVES FOR BEST PRACTICE IN CORPORATE GOVERNANCE

During the year, the Board updated its Code of Corporate Governance ("the Code") to ensure it was in line with best practice guidance from the Institute of Directors and the Financial Markets Authority (FMA). The updated Code can be found on the LPC website (lpc.co.nz).

The key points from the Code are contained on the following pages.

LPC's Code has adopted eight key principles:

1. Ethical Standards
2. Board Composition and Performance
3. Board Committees
4. Reporting and Disclosure
5. Remuneration
6. Strategy and Risk Management
7. Auditors
8. Shareholder Relations and Stakeholder Interests

PRINCIPLE 1 – ETHICAL STANDARDS

LPC has adopted a written code of ethics for the Company entitled Guidelines for Conduct ("the Guidelines"). This is a statement of our core values. The Guidelines set out explicit expectations for ethical decision-making and personal behaviour for Directors and employees. Key areas it covers include:

- Acting honestly and with high standards of personal and professional integrity
- Dealing with conflicts of interest, including any circumstances where a Director may/may not participate in a Board discussion, and voting on matters in which a Director has a personal interest
- Proper use of an entity's property and/or information, including not taking advantage of the entity's property or information for personal gain, except as permitted by law
- Not participating in illegal or unethical activity
- Fair dealing with customers, the Shareholder, clients, employees, suppliers, competitors and other stakeholders
- Guidelines on giving and receiving gifts and koha
- Guidelines to prevent and address improper payments (e.g. facilitation payments and bribes)
- Complying with applicable laws and regulations
- Reporting unethical decision-making and/or behaviour
- Conduct expected of Management and the Board for responding to and supporting whistle-blowing.

LPC communicates the Guidelines to our employees at the time of their initial employment, and supports their compliance with training and clear procedures.

LPC publishes the Guidelines on the LPC website and serious breaches are reported to the Board.

The LPC Board reviews the Guidelines for Conduct every two years. The Board ensures Directors, Executives and other personnel, are held accountable for ethical behaviour.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

LPC Directors are selected and appointed by our sole Shareholder, Christchurch City Holdings Limited (CCHL).

All LPC Directors are expected to, except as permitted by law and disclosed to the Shareholder or by the Company's constitution, act in the entity's best interests.

The Chair of the LPC Board is responsible for fostering a constructive governance culture and ensuring Directors and Management apply appropriate governance principles.

The LPC Board expects Directors to make the necessary time commitment to be effective in their role.

The LPC Board allocates time and resources for Directors to gain and retain a sound understanding of their responsibilities. New appointees have a comprehensive induction, and all Directors have ongoing training as required.

The LPC Board has rigorous formal processes for evaluating their performance and that of Board Committees, individual Directors and the Chair. This includes a formal, regular review of the Chair.

The LPC website includes a profile of each Director.

CORPORATE GOVERNANCE CONT.

PRINCIPLE 3 – BOARD COMMITTEES

The LPC Board Committees have a clear, formal term of reference setting out their role and delegated responsibilities. Those terms of reference make clear the function of the Committee is not to replace the ultimate decision-making authority of the full Board.

The terms of reference and membership of each Board Committee are available on LPC's website.

Committee proceedings are reported back to the Board to allow other Directors to question Committee members, and any Board members are allowed to attend Committee meetings.

LPC currently has two Committees, Audit and Finance and Remuneration. LPC also has a Governance Health and Safety Committee which is not a Board Committee, but has one Director sitting on the Committee.

PRINCIPLE 4 – REPORTING AND DISCLOSURE

The LPC Board has a rigorous process to ensure the quality and integrity of financial statements and non-financial reporting.

LPC's financial reporting and Annual Report (in addition to all information required by law) includes sufficient meaningful information to enable CCHL and stakeholders to be well informed. We strive to make our financial reports clear, concise and effective, while meeting the requirements of financial reporting standards.

The LPC Board determines the appropriate level of non-financial reporting, considering the interests of their stakeholders and material exposure to environmental, social and governance (ESG) factors. The Company maintains an effective system of internal control for reliable financial and non-financial reporting and accounting records.

The Board requires Management to provide it with information of sufficient content, quality and timeliness, as the Board considers necessary, to allow the Board to effectively discharge its duties. Management provides formal Board papers one week in advance of Board meetings. In addition, Board policy is to make regular site visits to view Company operations and to ensure Directors remain familiar with issues associated with the Company's business. Site visits usually involve interaction between Directors and Management, and direct access to employees when their particular area of expertise is required.

A formal process is followed, including representations and certifications from Management, to ensure that the Company's financial statements comply with international financial reporting standards as applied in New Zealand and fairly represent the financial affairs of the Company.

The Company provides timely and adequate disclosure of information on matters of material impact to the Shareholder through its quarterly and annual reporting, as well as through its Statement of Corporate Intent (SOI). The Board consults with the Shareholder at all reasonable times on any particular material matter relating to the affairs of the Company when asked to do so by the Shareholder (when notified in writing to the Board by the Shareholder from time to time).

LPC makes its Guidelines for Conduct, Board Committee Terms of Reference, ESG reporting and other governance documents readily available to stakeholders on the LPC website.

PRINCIPLE 5 – REMUNERATION

The LPC Board has a clear policy for setting Executive remuneration. Remuneration is fair and reasonable, and competitive in the market for the skills, knowledge and experience required. The Company believes all employees should have the opportunity to reach their potential and thrive in an inclusive and diverse workplace. The Board monitors established reporting and trend analysis on age profile, gender profile and employment tenure.

The Board is committed to a policy that the remuneration of Directors and Management be transparent, fair and reasonable. The Company is conscious of its public responsibilities in the setting of remuneration for Senior Executives, which is closely managed by the Board and made publically available via the annual report. No Executives decide their own remuneration.

LPC's Remuneration Committee recognises that market forces necessarily influence remuneration practices and it strongly believes the fundamental driver of remuneration

CORPORATE GOVERNANCE CONT.

outcomes should be business performance. It also believes that overall remuneration should be both fair to the individual, such that remuneration levels accurately reflect Executives' responsibilities and contributions. The positioning and relativities of pay and employment conditions across the wider workforce will also be taken into consideration.

LPC's Rewarding Performance remuneration strategy recognises the importance of health and safety, upon which the Remuneration Committee places great emphasis on the determination of performance-based remuneration outcomes for Management and the general workforce. The Committee is guided by LPC's purpose, its strategy and how the Company measures success. It aims to support LPC's Executives in taking a long term approach to decision-making in order to build a sustainable and value-adding business.

The Board recognises the importance of full, fair and transparent disclosure of the Chief Executive's (CE) salary. The CE's remuneration is made up of a base salary and incentive related payments. A full analysis of the CE's salary is disclosed in this Report.

The Executive Management team remuneration is made up of a base salary and usually comprises a performance incentive related payment which is dependent on the performance of the Company and attainment of agreed objectives.

The Shareholder by ordinary resolution from time to time sets a total maximum aggregate annual amount payable to the Directors in their capacity as Directors. That aggregate sum is divided among the Directors as they consider appropriate. The fees paid to each of the Directors in the previous financial year are detailed in the Directors' interests section of this Report.

Chief Executive Remuneration

The Board, through the Remuneration Committee, sets the remuneration structure for the Chief Executive (CE). His total remuneration is made up of a mixture of:

- Fixed Remuneration
- Short Term Incentive (STI) and
- Long Term Incentive (LTI).

Fixed Remuneration

Fixed Remuneration is assessed by independent advisors and is comparable for similar companies in terms of size, industry sector and performance. It includes all benefits, allowances and deductions, as set out in the Individual Employment Agreement. Annual adjustments are not automatic but determined by performance.

Short Term Incentive

The CE's performance is assessed by the Board against agreed objectives, including Health & Safety, Operational, Financial Performance and Leadership. The STI is set at a maximum of 40% of Fixed Remuneration. Of the 40%, 20% is linked to Health & Safety and 20% to financial performance. The remaining 60% is based on achieving the strategic objectives that are set annually.

Long Term Incentive

The Board agreed a LTI scheme with the CE. The key criteria were:

- Profitable Company performance,
- CE remains employed by the Company until 31 December 2019,
- CE is of 'good standing' with the Company at 31 December 2019, and
- Payable after 31 December 2019.

Chief Executive Remuneration

The table below summarises the Chief Executive's remuneration earned over the accounting period to 30 June for each year. The timing of remuneration payments will vary in line with the terms of the LTI and STI schemes.

Any one off back payment for holiday pay has been excluded from this table.

In thousands of New Zealand Dollars	2017 Actual	2018 Actual	2019 Forecast
Earned in Year			
Fixed Remuneration	597	615	631
Short Term Incentive Scheme	209	213	202
Long Term Incentive Scheme	149	153	158
Total Earned in Year	**955**	**981**	**991**

CORPORATE GOVERNANCE CONT.

Directors' Remuneration

Directors' Fees	2018	2017
B DWYER	49,245	48,136
B WOODS	52,877	50,807
D ELDER	51,666	36,382
G GILFILLAN	50,455	48,136
J QUINN	49,245	48,947
K SMITH	–	12,824
M DEVLIN	6,004	–
M JOHNS	35,610	–
R CARR	–	13,314
T BURT	89,232	87,740
Total	**384,334**	**346,286**

No Director had transactions or share dealing with the Company throughout the year.

Employee Remuneration

Salary Banding In thousands of New Zealand Dollars	2018	2017
100-110	71	66
110-120	48	41
120-130	30	18
130-140	15	17
140-150	12	10
150-160	9	6
160-170	1	5
170-180	4	3
180-190	3	2
190-200	3	–
200-210	3	3
210-220	4	5
220-230	1	–
290-300	1	1
310-320	–	1
320-330	1	1
330-340	2	1
950-960	0	1
980-990	1	0
Total	**209**	**181**

These amounts include remuneration earned during the year. This excludes any back-pay relating to holiday pay.

PRINCIPLE 6 – RISK MANAGEMENT

The LPC Board actively contributes to the formulation of the business strategy and tracks progress against it.

The LPC Board ensures there are rigorous risk management processes and internal controls in place.

The Board receives and reviews reports about the risk management framework and internal control processes throughout the year via the Audit and Finance Committee. Material risks are formally communicated to the Board every six months or more regularly if required.

Board reports include a copy of LPC's risk register and highlight the main risks to LPC's performance and the steps being taken to manage them.

PRINCIPLE 7 – AUDITORS

The LPC Board has a good working knowledge of the responsibilities of the external auditors. By law, the auditors of LPC are the Office of the Auditor General (OAG). The OAG then has the ability to contract that work out to an appropriately qualified and experienced audit firm. Where this happens, the Chair of the Audit and Finance Committee works with the OAG in the selection and appointment process following the relevant guidelines. This process is rigorous and based on professional merit.

The Board ensures that there is no relationship between the auditor and LPC (or any related person) that could compromise the auditor's independence.

CORPORATE GOVERNANCE CONT.

The Board facilitates regular and full dialogue between its Audit and Finance Committee, external auditors and Management. The Audit and Finance Committee has time set aside each year with the external auditors to discuss the performance of Management.

The Board ensures that the annual external audit is not led by the same audit partner for more than seven consecutive years.

Negotiations for the annual audit fee are managed by the Chair of the Audit and Finance Committee and the OAG. There is input from LPC's Management but the final decision is made by the Board and the OAG.

The Board prepares and files financial reports as required under relevant legislation. The Board reports in its Annual Report, the fees paid to their audit firm. This report differentiates between audit fees and fees for individually identified non-audit work (if applicable).

PRINCIPLE 8 – SHAREHOLDER RELATIONS AND STAKEHOLDER INTEREST

LPC maintains a positive and proactive relationship with CCHL. As part of the Company's annual SOI, the Board includes clear policies for the Company's communications and interactions with CCHL. The Board endeavours to ensure CCHL is informed of all major developments affecting the Company's state of affairs, while at the same time recognising commercial sensitivity may preclude certain information from being made public. Information is communicated to CCHL through a "no surprises" policy on issues of importance as they may arise, as well as through formal communications discussed further below.

Formal communication with CCHL includes:

Annual Report

The Annual Report is provided directly to the Shareholder and it includes audited financial statements and other details which are required to permit an informed assessment of LPC's performance and financial position during the reporting period.

Half Year and Quarterly Reporting

The half year and quarterly reporting contains unaudited information.

Statement of Intent

The SOI is prepared based on the requirements within the Port Companies Act 1988 and the Company's Constitution. The Directors include any other information they consider appropriate.

Briefings

The Company provides briefings to CCHL and its Board, and others as required.

CCHL Bonds

LPC acknowledges its responsibilities under the continuous disclosure regime in relation to CCHL's bonds and has implemented a policy to manage those disclosure requirements.

LPC has a clear focus on the needs of our key stakeholders (including customers, employees, the public, the Council and Government) and recognises it is critical to meet their needs to ensure we have a successful business.

STATEMENT OF CORPORATE INTENT – PERFORMANCE REPORTING

KEY PERFORMANCE MEASURES

Objectives	Key Performance Measures	Target 2018	Actual 2018
Health and Safety	Total recordable injury frequency rate *(per 200,000 hours)*	6.0	3.9
	Notifiable Events	0	1
Operational	Net Crane Rate *(as measured by Ministry of Transport)*	32.9	29.8
	Ship rate *(as measured by Ministry of Transport)*	64.8	61.3
	Coal load out rate *(tonnes per day)*	25,000	25,155
Financial	Revenue ($m)	118	122
	Net Profit After Tax ($m)	9	12
	Shareholder Funds to Total Assets	89%	94%
	Interest Cover ratio	45	N/A
	Dividend Proposed ($m)	5	7
Environmental	Compliance with Environmental audits	85%	100%

REGISTER OF DIRECTORS' INTERESTS

In line with the company's constitution and section 162 of the Companies Act 1993, the company has provided insurance for, and indemnities to, Directors of the company.

TREVOR BURT – CHAIRMAN

(from 12 November 2008 – Director, from 30 June 2013) – Chairman

Entity

NZ Lamb Company Ltd – Chairman

PGG Wrightson Ltd – Deputy Chairman

Breakaway Investments Ltd – Director

Landpower Holdings Ltd – Director

Silver Fern Farms Ltd – Director

Agria Asia Investments Ltd – Director

Agria (Singapore) Pty Ltd – Director

Market Gardeners Ltd – Director

Maia Health Foundation – Trustee

Christ's College Board of Governors – Member

MainPower NZ Ltd – Director
– Interest ceased before year end

Ngāi Tahu Holdings Corporation Ltd – Chairman
– Interest ceased before year end

Ngāi Tahu Capital Ltd – Chairman
– Interest ceased before year end

BRIAN WOOD

(from 1 June 2011)

Entity

Westport Harbour Ltd – Chairman

Buller Holdings Ltd – Chairman

Westreef Services Ltd – Chairman

Buller Recreation Ltd – Chairman

Canterbury Linen Services Ltd – Chairman

Christchurch City Council, Project Steering Group Library Rebuild – Chairman

Christchurch City Council, Project Steering Group Town Hall Rebuild – Chairman

The Oversight Group for the Reinstatement of the South Island Transport Corridors – Ministry of Transport, Chairman

Delta Utility Services Ltd – Chairman

Harrison Grierson Holdings Ltd – Director

Aurora Energy Ltd – Director
– Interest ceased before year end

Dunedin City Holdings Ltd – Director
– Interest ceased before year end

Dunedin City Treasury Ltd – Director
– Interest ceased before year end

Delta Utility Services Ltd – Chairman
– Interest ceased before year end

Fulton Hogan – Governance Board for NZTA West Coast State Highway Project
– Interest ceased before year end

REGISTER OF DIRECTORS' INTERESTS CONT.

JIM QUINN

(from 31 March 2014)

Entity
Tubman Heating Ltd – Chairman and Shareholder
Q Services Ltd – Owner
Payments New Zealand – Chairman
Go Bus – Director
Intilecta Corporation – Chairman
Auckland Council – Executive

BILL DWYER

(from 19 August 2015)

Entity
Development Christchurch Ltd – Chairman
Regenerate Christchurch – Director
Ohinetahi Charitable Trust – Trustee
Coconut Culture Ltd – Director – Interest ceased before year end

GRANT GILFILLAN

(from 3 February 2016)

Entity
Port Authority of New South Wales – CE and Director
Ports Australia – Director
Australian Cruise Association – Chairman

MALCOLM JOHNS

(from 11 October 2017)

Entity
St. Andrews College Board of Governors – Member
Christchurch International Airport Ltd – Chief Executive

REGISTER OF DIRECTORS' INTERESTS CONT.

DON ELDER

(from 13 October 2016)

Entity
Spanbild Holdings Ltd and related subsidiaries – Chairman and Director
– Spanbild NZ Ltd – Director
– Versatile Properties Ltd – Director
– Versatile Australia Holdings Ltd – Director
– Portabuild (2007) Ltd – Director
– Spanbild Investments Ltd – Director
– Construction Components New Zealand Ltd – Director
– 1200 Properties Ltd – Director
– Verve Apartments General Partner Ltd – Director
– New Zealand Panelised Building Systems Ltd – Director – Interest ceased before year end
– New Zealand Panelised Properties Ltd – Director – Interest ceased before year end
– Construction Components NZ Ltd – Chairman, Director – Interest ceased before year end
– 1200 Properties Ltd – Chairman, Director – Interest ceased before year end
Concision Ltd – Chairman and Director
Aoraki Partners Holdings Ltd – Director, Shareholder
Aoraki Services Ltd – Director, Shareholder
Aoraki Holdings (No 2) Ltd – Director, Shareholder
Canterbury Seismic Instruments Ltd – Director, Shareholder
Bras D'Or Investments Ltd – Director, Shareholder
Bras D'Or Services Ltd – Director, Shareholder
Family Help Trust – Trustee
Alpine Energy – Director
– Infratec Ltd – Director
– Infratec Renewables (Rarotonga) Ltd – Director
– Netcon Ltd - Director

MARGARET DEVLIN

(from 16 May 2018)

Entity
Harrison Grierson – Chairman, Chair of Remuneration Committee, member of Audit and Risk Committee
Watercare Services Ltd – Chairman, member of Audit and Risk Committee, People, Remuneration and Appointments Committee and Major Capital Projects Committee
Institute of Directors – Chartered Fellow and Waikato Branch Committee member
Waikato Regional Airport Ltd – Director and Member of Audit Committee
Titanium Park Ltd – Chairman
National Infrastructure Advisory Board – Member
Waikato University – Member of Audit and Risk Committee, Councillor
Waikato District Council – External appointment and Chairman of Audit and Risk Committee
Waikato Spatial Plan Joint Committee – Chairman
Meteorological Services of New Zealand Ltd – Director and Member of the Remuneration Committee
IT Partners Group – Director
Women in Infrastructure Network – Chairman
Aurora Energy – Director
WINTEC – Councillor

DIRECTORY

BOARD OF DIRECTORS

Trevor Burt
Chairman

Bill Dwyer

Grant Gilfillan

Jim Quinn

Brian Wood

Don Elder

Malcolm Johns

Margaret Devlin

EXECUTIVE MANAGEMENT TEAM

Peter Davie
Chief Executive

Jonathan Gardiner
Chief Financial Officer

Allanah James
Strategic Communications Manager

Paul Monk
Operations Manager

Simon Munt
Marketing Manager

John O'Dea
Development Manager

Glen Johnson
Senior Health Safety & Wellbeing Manager

Matt Dolan
General Manager HR

REGISTERED OFFICE

Lyttelton Port Company Limited
Waterfront House
37-39 Gladstone Quay, Lyttelton
Christchurch, New Zealand 8082
Private Bag 501, Lyttelton 8841

Telephone: (03) 328 8198
Facsimile: (03) 328 7828
Email: enquiries@lpc.co.nz

WEBSITE

www.lpc.co.nz

BANKERS

China Construction Bank Limited

Westpac Banking Corporation

AUDITORS

Graeme Edwards, KPMG Christchurch
On behalf of the Auditor-General, New Zealand

Registered Office
Lyttelton Port Company Limited
Waterfront House
37-39 Gladstone Quay, Lyttelton 8082
Christchurch, New Zealand
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Lyttelton
Port
Company