ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

Lyttelton Port of Christchurch

This is the Lyttelton Port Company (LPC) Annual Report for the financial year ending 30 June 2017. 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 2017 and our future plans, please refer to our annual review on our website lpc.co.nz.

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CORPORATE GOVERNANCE

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LYTTELTON PORT COMPANY STRIVES FOR BEST PRACTICE IN CORPORATE GOVERNANCE.

ETHICAL STANDARDS

Company Directors and employees are expected to act honestly, in good faith and in the best interests of the Company as required by law at all times. Directors observe and foster high ethical standards throughout the Company. To that end, the Board has adopted a Code of Conduct for employees and a fraud prevention policy which addresses:

- conflicts of interest
- protection of company information
- protection of company assets and property
- acceptance of gifts or benefits (and the prohibition of bribes and facilitation payments)
- relations with customers, suppliers and employees, and
- compliance with laws and policies.

Mechanisms are in place for the reporting of unethical behaviour and breaches of the Code of Conduct and other Company policies, which may lead to disciplinary action.

A Directors' interests register is maintained and reviewed at each Board meeting. Directors' interests are disclosed in the Company's Annual Report.

ROLE OF THE BOARD

The Board is responsible for corporate governance and the direction and supervision of the Company's business. Day to day management of the Company is delegated to the Chief Executive appointed by the Board. The Board agrees targets and objectives with the Chief Executive and monitors and reviews management's performance on a regular basis. The Board must make decisions in accordance with the Company's Statement of Corporate Intent.

Board Composition

The Company's Constitution provides that the Board will consist of between six and eight Directors, and not more than two Directors can be members or employees of a local authority that owns voting securities in the Company. One third of the Directors must retire by rotation at each annual meeting.

In addition to the Constitution requirements, the Board's policy is that Directors should possess a balance of skills, knowledge, experience and perspectives so that the Board works effectively.

Continuous Improvement

The Company provides induction training for new appointees to the Board and Directors, and they are encouraged to undertake ongoing training to remain current on how to best perform their duties as Directors.

The Board has a formal procedure for regular evaluation of the effectiveness and performance of the Board and its individual members.

CORPORATE GOVERNANCE

COMMITTEES OF THE BOARD

The Board has the following Committees:

- Audit and Finance Committee
- Remuneration Committee

The Committees make recommendations to the Board and exercise the Board's decision-making powers when they have been delegated authority to do so. The composition, terms of reference and performance of each of the Committees are reviewed regularly by the Board.

The Board also has representation on the Management Health and Safety Governance Committee.

REMUNERATION

The Board is committed to a policy that the remuneration of Directors and Senior Management be transparent, fair and reasonable. The company is especially conscious of its public responsibilities in the setting of remuneration for senior executives, which is closely managed by the Board and made publicly available via the annual report.

The Shareholder by ordinary resolution from time to time sets a total maximum 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 the Company's Annual Report.

Our policy ensures remuneration levels for all staff are set fairly and responsibly. We aim to provide an approach to monetary and non-monetary remuneration and benefits that enable us to attract and retain the people we need to manage and operate the business.

Our remuneration framework encompasses:

- Delegated financial authorities for hiring of new employees and remuneration setting.
- An annual staff appraisal and pay review process.
- Subscription to, and participation in, market remuneration surveys.

A proportion of the remuneration of a number of staff, including the Chief Executive and Senior Management, comprises a performance related payment, which is dependent on both the performance of the Company and attainment of agreed objectives. All such payments are approved by the Board prior to payment.

REPORTING AND DISCLOSURES

The Board requires Company 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 Senior 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 will provide timely and adequate disclosure of information on matters of material impact to shareholder through its quarterly and annual reporting, as well as through its Statement of Corporate Intent. 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).

INDEPENDENT AUDITOR

The Board is responsible for ensuring the quality and independence of the external audit process.

Pursuant to the Port Companies Act 1988 and the Public Audit Act 2001, the Auditor General is the auditor of the Company and its subsidiaries. The Auditor General may delegate that authority to a professional accounting services firm. The current auditor of the Company on behalf of the Auditor General is G Edwards, of KPMG.

The Board has formal and transparent procedures for communication with the Company's external auditors. The AFC meets with the auditors at least once a year, independently of Management to discuss any areas of concern or recommendations for improvement.

To ensure auditor independence, the AFC is advised of any non-audit services provided by the auditors to the Company. Any such services must be consistent with the independence requirements of the Auditor-General (which incorporate the independence requirements of the External Reporting Board) and the fees for non-audit work must be reported to the shareholder in the Company's annual report.

STATEMENT OF CORPORATE INTENT – PERFORMANCE REPORTING

KEY PERFORMANCE MEASURES

Objectives	Key Performance Measures	Full Year Performance	Annual SOI Target
Health and Safety	Total recordable injury frequency rate *(per 200,000 hours)*	7.55	8.1
	Serious harm accidents	0	0
Operational	Crane rate *(containers per hour per crane)*	30.8	31.3
	Ship rate *(TEU per hour per ship)*	60.5	61.7
	Coal load out rate *(tonnes per day)*	25,640	25,000
Financial	Revenue *($m)*	114	109
	Dividend Proposed *($m)*	8	2
Environmental	Number of breaches – lagging	1	0

There are no material variances except the change to the dividend relating to 2017. LPC's result for year ended 30 June 2017 has been significantly better than expected with adjusted free cash flow higher than forecast and a resulting higher proposed dividend than noted in the Statement of Intent.

REGISTER OF DIRECTORS' INTERESTS

TREVOR BURT – CHAIRMAN

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

Entity	Transactions	Share Dealing
Ngāi Tahu Holdings Corporation Ltd – Chairman	None	Nil
Ngāi Tahu Capital Ltd – Chairman		
NZ Lamb Company Ltd – Chairman		
PGG Wrightson Ltd – Deputy Chairman		
MainPower NZ Ltd – Director		
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		

REGISTER OF DIRECTORS' INTERESTS

BRIAN WOOD

(from 1 June 2011)

Entity	Transactions	Share Dealing
Westport Harbour Limited – Chairman	None	Nil
Buller Holdings Ltd – Chairman		
Westreef Services Ltd – Chairman		
Buller Recreation Ltd – Chairman		
Westport Harbour 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		
Dunedin City Holdings Ltd – Director		
Dunedin City Treasury Ltd – Director		
Harrison Grierson Holdings Ltd – Director		
Fulton Hogan – Member of the Governance Board for NZTA West Coast State Highway Project		

JIM QUINN

(from 31 March 2014)

Entity	Transactions	Share Dealing
Tubman Heating Ltd – Chairman and Shareholder	None	Nil
Q Services Ltd – Owner		
Payments New Zealand – Chairman		
Go Bus – Director		
Intilecta Corporation – Chairman		
Auckland Council – Executive		

BILL DWYER

(from 19 August 2015)

Entity	Transactions	Share Dealing
Development Christchurch Limited – Chairman	None	Nil
Coconut Culture Limited – Director		
Regenerate Christchurch – Director		

REGISTER OF DIRECTORS' INTERESTS

GRANT GILFILLAN

(from 3 February 2016)

Entity	Transactions	Share Dealing
Port Authority of New South Wales – CE and Director	None	Nil
Ports Australia – Director		

DON ELDER

(from 13 October 2016)

Entity	Transactions	Share Dealing
Spanbild Holdings Limited and related subsidiaries – Chairman, Director and CEO	None	Nil
Spanbild – related Joint Ventures:		
– New Zealand Panelised Building Systems Limited – Director		
– New Zealand Panelised Properties Limited – Director		
– Construction Components New Zealand Limited – Chairman, Director		
– 1200 Properties Limited – Chairman, Director		
Aoraki Partners Holdings Limited – Director, Shareholder		
Aoraki Services Limited – Director, Shareholder		
Canterbury Seismic Instruments Limited – Director, Shareholder		
Bras D’Or Investments Limited – Director, Shareholder		
Bras D’Or Services Limited – Director, Shareholder		

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 an 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	**2016 Actual**	**2017 Actual**	**2018 Forecast**
Earned in Year			
Fixed Remuneration	582	597	612
Short Term Incentive Scheme	183	209	196
Long Term Incentive Scheme	146	149	153
Total Earned in Year	**911**	**955**	**961**

DIRECTORS' REMUNERATION

Directors' Fees	2017	2016
T BURT	87,740	86,811
J QUINN	48,947	50,558
K SMITH	12,824	50,754
B WOOD	50,807	48,331
L CROSSEN	–	5,714
G GILFILLAN	48,136	19,258
B DWYER	48,136	39,365
R CARR	13,314	46,105
D ELDER	36,382	–
Total	**346,286**	**346,897**

LYTTELTON PORT COMPANY LIMITED REMUNERATION

Salary Banding In thousands of New Zealand Dollars	**2017**	**2016**
100-110	66	57
110-120	41	23
120-130	18	24
130-140	17	7
140-150	10	11
150-160	6	5
160-170	5	–
170-180	3	2
180-190	2	1
190-200	–	2
200-210	3	5
210-220	5	1
260-270	–	1
290-300	1	–
300-310	–	3
310-320	1	–
320-330	1	–
330-340	1	–
460-470	–	1
910-920	–	1
950-960	1	–
Total	**181**	**144**

FINANCIAL STATEMENTS

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DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017

In the opinion of the Directors of Lyttelton Port Company Limited, the consolidated financial statements and notes on pages 18 to 47:

- comply with New Zealand equivalents to International Financial Reporting Standards and fairly present the financial position of the Group as at 30 June 2017, 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 2017.

For and on behalf of the Board of Directors:

Trevor Burt
Director
23 August 2017

Brian Wood
Director
23 August 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

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

In thousands of New Zealand dollars	Notes	2017	2016
Revenue		114,424	105,714
Employee expenses		(51,415)	(49,740)
Materials and consumables utilised		(24,924)	(23,725)
Depreciation and amortisation	6, 8, 9	(13,233)	(14,393)
Administrative and other expenses	4	(10,935)	(8,805)
RESULTS FROM OPERATING ACTIVITIES		13,917	9,051
Impairment	8, 9, 20	–	(99,519)
RESULTS FROM OPERATING ACTIVITIES AND IMPAIRMENT		13,917	(90,468)
Net financing income	5	5,170	8,236
Profit/(loss) before tax for the year		**19,087**	**(82,232)**
Income tax (expense)/credit	7	(4,640)	22,427
Profit/(loss) for the year		**14,447**	**(59,805)**
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Effective portion of changes in fair value of cash flow hedges – gross of tax		153	(310)
Income tax on other comprehensive income		(43)	87
Total comprehensive income/(expense) for the year		**14,557**	**(60,028)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

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

In thousands of New Zealand dollars	Notes	2017	2016
ASSETS			
Property, plant and equipment	8	336,347	296,548
Intangible assets	9	10,542	7,740
Loans and advances		–	56
Prepayments		510	751
Deferred tax asset/(liability)		1,047	(4,752)
Total non-current assets		**348,446**	**300,343**
Cash and cash equivalents	13	17,031	15,192
Short term deposits	13	117,000	150,000
Trade and other receivables		16,941	16,409
Prepayments		1,404	1,723
Interest receivable		1,619	4,139
Inventories		3,581	3,516
Loans and advances		84	160
Total current assets		**157,660**	**191,139**
Total assets		**506,106**	**491,482**
EQUITY			
Share capital	11	21,457	21,457
Cash flow hedge reserve	11	(44)	(154)
Retained earnings		457,015	447,805
Total equity		**478,428**	**469,108**
LIABILITIES			
Deferred lease income	12	–	171
Derivatives	13	–	132
Employee entitlements		316	513
Total non-current liabilities		**316**	**816**
Trade and other payables	13	13,174	11,282
Employee entitlements		12,470	11,708
Derivatives	13	61	83
Deferred lease income	12	171	867
Income tax payable/(receivable)		1,486	(2,382)
Total current liabilities		**27,362**	**21,558**
Total liabilities		**27,678**	**22,374**
Total equity and liabilities		**506,106**	**491,482**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

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 2015	**21,457**	**69**	**510,221**	**531,747**
PROFIT/(LOSS) FOR THE YEAR	–	–	(59,805)	(59,805)
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Effective portion of changes in fair value of cash flow hedges - net of tax	–	(223)	–	(223)
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY				
Dividends to equity holders	–	–	(2,611)	(2,611)
Balance at 30 June 2016	**21,457**	**(154)**	**447,805**	**469,108**
PROFIT/(LOSS) 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**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

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

In thousands of New Zealand dollars	Notes	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		113,157	102,172
Cash paid to suppliers and employees		(85,180)	(81,887)
Interest and facility fees paid		(25)	(27)
Interest received		7,715	9,132
Subvention payments	22	(4,145)	(7,263)
Income tax paid		(2,426)	(1,750)
Net cash from operating activities	**16**	**29,096**	**20,377**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		378	99
Net investment in short term deposits		33,000	(20,000)
Acquisition of property, plant and equipment	8	(51,826)	(75,730)
Acquisition of intangible assets	9	(3,572)	(3,413)
Net cash used in investing activities		**(22,020)**	**(99,044)**
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid	17	(5,237)	(2,611)
Net cash from financing activities		**(5,237)**	**(2,611)**
Cash and cash equivalents at 1 July		**15,192**	**96,470**
Net increase/(decrease) in cash and cash equivalents		1,839	(81,278)
Cash and cash equivalents at 30 June		**17,031**	**15,192**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 41 Chapmans Road, Hillsborough, Christchurch 8022, 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 23 August 2017.

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 2017 is included in:

Note 8 – property, plant and equipment.

Note 20 – impairment

Note 21 – holiday pay

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 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 8).

(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.

3. SIGNIFICANT ACCOUNTING POLICIES cont.

(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.

(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, as required by NZ IAS 23 Borrowing Costs.

(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. This did not result in a material 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

4. OTHER EXPENSES

In thousands of New Zealand dollars	2017	2016
Administrative and other expenses, including:	10,935	8,805
Auditor's remuneration to KPMG comprises:		
Audit of financial statements	99	83
Total auditor's remuneration	**99**	**83**

Also included in other expenses are fees payable to the OAG for audit related overhead of $6k (2016: $6k) and $1.3m (2016: $nil) 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	2017	2016
Interest income on cash and cash equivalents	5,195	8,263
Bank facility fees	(25)	(24)
Interest paid on bank advances	–	(3)
Net finance expenses	**5,170**	**8,236**

6. NET (GAIN)/LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT

In thousands of New Zealand dollars	2017	2016
Depreciation and amortisation, including:	13,233	14,393
Net (gain)/loss on sale of property, plant and equipment	(319)	(54)

7. INCOME TAX EXPENSE

In thousands of New Zealand dollars	2017	2016
Current tax expense		
Current period	10,218	5,741
Adjustment for prior periods	265	(38)
Total current tax expense	**10,483**	**5,703**
Deferred tax expense		
Origination and reversal of temporary differences	(5,713)	(28,371)
Adjustment for prior period	(130)	240
Total deferred tax (credit)/expense	**(5,843)**	**(28,131)**
Total income tax (credit)/expense	**4,640**	**(22,427)**

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

7. INCOME TAX EXPENSE cont.

In thousands of New Zealand dollars	2017 RATE	2017 AMOUNT	2016 RATE	2016 AMOUNT
Profit after tax		14,447		(59,805)
Total income tax (credit)/expense		4,640		(22,427)
Profit before tax		**19,087**		**(82,232)**
Income tax using the Company's domestic tax rate	28.0%	5,345	28.0%	(23,025)
Non-deductible expenses	2.2%	426	(8.6%)	7,044
Adjustments to deferred tax	(6.6%)	(1,265)	8.1%	(6,648)
(Over)/under provided in prior periods	0.7%	134	(0.2%)	202
Other	–	–	–	–
Total income tax (credit)/expense	**24.3%**	**4,640**	**27.3%**	**(22,427)**

In thousands of New Zealand dollars	2017	2016
Income tax expense/(credit) on derivatives	(43)	87
Total income tax recognised directly in equity (Note 10)	**(43)**	**87**

In thousands of New Zealand dollars	2017	2016
Imputation credits at 1 July	25,889	23,354
New Zealand tax payments, net of refunds	662	3,550
Imputation credits attached to dividends paid	(2,037)	(1,015)
Imputation credits at 30 June	**24,514**	**25,889**

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 2017,

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.

8. 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 2015	**110,743**	**10,724**	**202,681**	**170,157**	**494,305**
Additions	–	3,599	64,597	7,994	76,190
Disposals	–	(8)	–	(327)	(335)
Balance at 30 June 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**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 July 2015	**–**	**(4,742)**	**(67,935)**	**(93,748)**	**(166,425)**
Depreciation expense	–	(311)	(6,126)	(7,356)	(13,793)
Disposals	–	7	–	281	288
Impairment expense	(11,116)	(3,038)	(49,083)	(30,445)	(93,682)
Balance at 30 June 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
Impairment expense	–	–	–	–	–
Balance at 30 June 2017	**(11,116)**	**(8,520)**	**(128,158)**	**(133,962)**	**(281,756)**
CARRYING AMOUNTS					
Net book value as at 30 June 2016	**99,627**	**6,231**	**144,134**	**46,556**	**296,548**
Net book value as at 30 June 2017	**99,627**	**13,006**	**151,371**	**72,343**	**336,347**

Accumulated impairment included in the above is $93,682,000.

Included in the reconciliation above is “capital work in progress” of $51,840,000 (2016: $19,371,000) comprising $8,512,000 buildings, $26,794,000 land improvements & harbour structures and $16,534,000 plant, equipment & vehicles.

During the year, the Group has commenced significant asset additions including Te Ana Marina and 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

9. INTANGIBLE ASSETS

In thousands of New Zealand dollars	Software	Easements & resource consents	Total
GROSS CARRYING AMOUNT			
Balance at 1 July 2015	**7,014**	**10,084**	**17,098**
Additions	560	2,853	3,413
Balance at 30 June 2016	**7,574**	**12,937**	**20,511**
Additions	(52)	3,624	3,572
Balance at 30 June 2017	**7,522**	**16,561**	**24,083**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2015	**(5,616)**	**(664)**	**(6,280)**
Amortisation expense	(596)	(58)	(654)
Impairment expense	(14)	(5,823)	(5,837)
Balance at 30 June 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)**
CARRYING AMOUNTS			
Net book value as at 30 June 2016	**1,348**	**6,392**	**7,740**
Net book value as at 30 June 2017	**575**	**9,967**	**10,542**

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

Included in the reconciliation above is "capital work in progress" of $9,383,000 (2016: $5,759,000).

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

10. DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
In thousands of New Zealand dollars	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	4,227	4,541	(5,297)	(11,358)	(1,070)	(6,817)
Employee entitlements	2,574	2,524	–	–	2,574	2,524
Derivatives	17	60	–	–	17	60
Other items	240	291	(714)	(810)	(474)	(519)
Tax assets/(liabilities)	**7,058**	**7,416**	**(6,011)**	**(12,168)**	**1,047**	**(4,752)**

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 2015**	**Recognised in profit or loss**	**Recognised in equity**	**Balance 30 June 2016**	**Recognised in profit or loss**	**Recognised in equity**	**Balance 30 June 2017**
Property, plant and equipment	(34,970)	28,153	–	(6,817)	5,747	–	(1,070)
Employee entitlements	2,101	423	–	2,524	50	–	2,574
Derivatives	(27)	–	87	60	–	(43)	17
Other items	(74)	(445)	–	(519)	45	–	(474)
Tax assets/(liabilities)	**(32,970)**	**28,131**	**87**	**(4,752)**	**5,842**	**(43)**	**1,047**

11. CAPITAL AND RESERVES

In thousands of New Zealand dollars	2017	2016
Share capital	**21,457**	**21,457**
Cash flow hedge reserve	**(44)**	**(154)**

At 30 June 2017 there were 102,261,279 shares on issue (2016: 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

A dividend of $5.2m was paid by the Group during the year ended 30 June 2017 (2016: $2.6M).

12. DEFERRED LEASE INCOME

On 11 September 2002 shareholders approved entry into a 15-year coal handling agreement with Solid Energy New Zealand Limited which provided for Lyttelton Port Company to receive a $13 million prepayment of agreement charges. Should Lyttelton Port Company fail to meet its material obligations in respect of the agreement and Solid Energy exercises its right of termination then the company would be required to repay to Solid Energy a proportion of the value of its agreement charge prepayment up to a maximum of $13 million. Deferred lease income received is recognised in the Statement of Comprehensive Income on a straight line basis over the 15 year term of the agreement.

In thousands of New Zealand dollars	2017	2016
Balance at 1 July	**1,038**	**1,903**
Deferred lease income recognised	(867)	(865)
Balance at 30 June	**171**	**1,038**
Recognised as follows:		
Current	171	867
Non current	–	171
Total	**171**	**1,038**

13. 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. As such it is concentrated to the default risk of its customers' industries. No more than 15 percent of the Group's operating revenue results from transactions with any one customer. For the year ended 30 June 2017, revenue from Solid Energy Limited represented approximately 10% of the Group's operating revenue. The Group also had a $1.1m receivable from Solid, offset by $0.2m of deferred income. All amounts due were paid subsequent to 30 June. Geographically there is no significant credit risk concentration outside of New Zealand.

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 2017. 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.

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.

13. FINANCIAL INSTRUMENTS cont.

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.

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:

	2017		**2016**	
In thousands of New Zealand dollars	**Gross receivable**	**Individually impaired**	**Gross receivable**	**Individually impaired**
Not past due	11,287	–	11,473	–
Past due 1-60 days	5,232	–	4,514	–
Past due 61-90 days	170	–	192	–
Past due more than 90 days	559	307	273	43
Total	**17,248**	**307**	**16,452**	**43**

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

(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**
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**	**–**	**–**	**–**	**–**
2016							
Trade and other payables	11,282	11,282	11,282	–	–	–	–
Non-derivative liabilities total	**11,282**	**11,282**	**11,282**	**–**	**–**	**–**	**–**
Forward exchange contracts – current	83	4,888	1,203	3,685			
Forward exchange contracts – non current	132	7,486	–	–	7,486	–	–
Total	**11,497**	**23,656**	**12,485**	**3,685**	**7,486**	**–**	**–**

13. 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
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**	**–**	**–**	**–**
2016						
Cash and cash equivalents	15,192	15,192	–	–	–	–
Short term deposits	150,000	95,000	55,000	–	–	–
Total	**165,192**	**110,192**	**55,000**	**–**	**–**	**–**

Cash and short term deposits are restricted to be used for capital expenditure except $10m 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 2017 it is estimated that an increase of 1.0% in interest rates would increase the Group's profit before income tax by approximately $1.5 million (2016: $1.9 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 2017 was a liability of $61,000 (2016: liability of $215,000), comprising assets of $Nil (2016: $Nil) and liabilities of $61,000 (2016: $215,000).

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.

14. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

In thousands of New Zealand dollars	2017	2016
Less than one year	342	313
Between one and five years	352	535
More than five years	–	––
Total	**694**	**848**

During the year ended 30 June 2017 the Group recognised $0.3m as an expense in the Statement of Comprehensive Income in respect of operating leases (2016: $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	2017	2016
Less than one year	4,528	5,015
Between one and five years	15,149	15,187
More than five years	14,042	17,418
Total	**33,719**	**37,620**

15. CAPITAL COMMITMENTS

In thousands of New Zealand dollars	**2017**	**2016**
Commitments for the purchase of property, plant & equipment	27,450	32,088

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

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

In thousands of New Zealand dollars	2017	2016
Profit for the year	**14,447**	**(59,805)**
ADJUSTMENTS FOR:		
Depreciation and amortisation (including net loss on sale of property, plant and equipment)	13,233	14,393
Impairment	–	99,519
Deferred tax charge	(5,799)	(28,130)
Non-current deferred lease revenue	(171)	(865)
Non-current loans and receivables	56	184
Capital creditors	(858)	(458)
Non-current prepayments	241	(751)
	6,702	**83,892**
ADD/(LESS) MOVEMENTS IN WORKING CAPITAL ITEMS:		
Change in tax payable	3,868	(3,310)
Change in inventories	(65)	209
Change in trade and other receivables	(456)	(2,861)
Change in interest receivable	2,520	869
Change in prepayments	319	(125)
Change in trade and other payables (including employee entitlements)	1,761	1,508
	7,947	**(3,710)**
Net cash flow from operating activities	**29,096**	**20,377**

17. 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	2017	2016
Short-term employee benefits	2,482	2,710
Long-term incentives	161	229

The Group does not provide any non-cash benefits to Directors and executive officers other than Directors fees or salaries.

17. RELATED PARTIES cont.

TRANSACTIONS WITH CONTROLLING SHAREHOLDER AND OTHER COMPANIES IN THE GROUP

In thousands of New Zealand dollars	2017	2016
Transactions with CCC		
Sales	29	29
Purchases	(210)	(148)
Rates	(577)	(560)
Subvention payment	(1,921)	(5,967)
Accounts payable	(28)	(24)
Accounts receivable	3	3
Transactions with CCHL		
Dividend	(5,237)	(2,611)
Transactions with other Group entities		
Sales	13	127
Purchases	(1,341)	(1,025)
Subvention payments	(2,224)	(1,296)
Accounts payable	(83)	(332)
Accounts receivable	–	117

18. GROUP ENTITIES

	Country	Interest (%)	
In thousands of New Zealand dollars		2017	2016
NZ Express (2005) Limited	New Zealand	100	100
Curries Proprietary Limited	New Zealand	100	100

19. 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.

20. IMPAIRMENT

The Directors wrote down the carrying value of Plant Property and Equipment by $99.5 million in the year ended 30 June 2016. There was no impairment for the year ended 30 June 2017.

21. HOLIDAY PAY

It has been brought to the Directors' attention that there are some non compliance issues with regard to the payment of holiday pay. It was identified during the period to 30 June 2016 that the Group may not have fully complied with the requirements of the Holidays Act 2003 in respect of prior periods. A partial recalculation has been completed and a payment will be made on 11 August 2017, this is fully provided for in the financial statements. Further calculations and repayments are to be made by the end of the calendar year.

22. 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 – $1,921,380 (2016: $5,967,379)

– CDC Consolidated Group – $Nil (2016: $42,885)

– Vbase Group $Nil (2016: $1,252,936)

– Enable Services $2,223,882 (2016: $Nil)

23. SUBSEQUENT EVENTS

There were no material subsequent events.

INDEPENDENT AUDITOR'S REPORT

4

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF LYTTELTON PORT COMPANY GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 18 to 47, that comprise the statement of financial position as at 30 June 2017, 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 2017; 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 23 August 2017. 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, 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 on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional 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 2, 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.

G Edwards

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

DIRECTORY

BOARD OF DIRECTORS

Trevor Burt
Chairman

Bill Dwyer

Grant Gilfillan

Jim Quinn

Brian Wood

Don Elder

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

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