

# Statement of Intent for the year ending 30 June 2011

## Introduction

The Statement of Intent (Sol) specifies for Lyttelton Port Company Ltd and its subsidiary the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public expression of the accountability relationship between the company and its shareholders.

The Sol is reviewed annually and covers a one year period.

Lyttelton Port Company Ltd's registered office is at Christchurch.

Contact details for both the Chairperson and Chief Executive are:

|           |                                  |
|-----------|----------------------------------|
| Address   | Private Bag 501, Lyttelton, 8841 |
| Telephone | (03) 328 8198                    |
| Website   | www.lpc.co.nz                    |

## Objectives

- a) Lyttelton Port Company Ltd's vision is  
"To be the South Island Port of Choice"
- b) Lyttelton Port Company Ltd's key objectives are:
  - **To be profitable over the long term**
    - to optimise long term shareholder returns
    - to protect and grow LPC's share of port services in target markets
    - to pursue expansion opportunities in the Transport Supply Chain that add value in both customer service levels and shareholder returns
    - to practice a continuous improvement cycle that will ensure the cost and performance competitiveness of LPC's services
  - **To provide outstanding customer service**
    - to deliver efficient services and infrastructure which exceed customer expectations
    - to build relationships with customers based on trust and mutual benefit.
  - **To be an employer of choice**
    - to provide a challenging and rewarding work environment which develops trust and encourages both teamwork and development to full potential
    - to continually improve the safety of LPC's work environment.
  - **To be environmentally and socially responsible**
    - to minimise any adverse effects of LPC's activities and facilities on the environment
    - to be a responsible corporate citizen
    - to maintain strong links and regard for the community.

## Nature and scope of activities

Lyttelton Port Company Ltd will be involved in providing land, facilities, plant and labour for the receiving, delivery, stockpiling, stacking and shipment of a wide range of products; the ownership of land and facilities necessary to maintain the company's commercial assets; and the provision of facilities associated with the repair and servicing of vessels.

## Governance

Lyttelton Port Company Ltd continues to strive for best practice in corporate governance.

### Role of the Board

The Board is elected by Shareholders to create value and have overall responsibility for management of the company.

The Board carries out its responsibilities by setting the Company's strategic direction, providing leadership to put this into effect, appointing a Chief Executive, agreeing targets and objectives, and monitoring performance. The Chief Executive has been delegated responsibility for the day-to-day management of the company. He has an executive team of five to assist him.

Corporate decisions are made at Shareholder, Director or management level, depending on statutory requirements, New Zealand Stock Exchange Listing Rule or Board Policy relating to the value of transactions.

## Ratio of shareholders' funds to total assets

We are unable to disclose the forecast ratio of shareholders' funds to total assets for the next three years.

The long term target for the ratio of debt to debt plus equity is 50%, to a maximum of 65%.

## Accounting policies

Lyttelton Port Company Ltd has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

## Performance targets

Lyttelton Port Company Ltd is a publicly listed entity. It provides information to shareholders via the New Zealand Stock Exchange on a formal basis, predominantly in the form of half and full year announcements. It is a requirement of the New Zealand Stock Exchange that material information is released to all shareholders concurrently.

With this background, the information that Lyttelton Port Company Ltd can provide in the Sol is limited to that which is in the public domain.

## Performance targets for 2009/10

The performance achieved by the company for the 2008/9 year was as follows:

|              | 2008/09               |
|--------------|-----------------------|
| <i>Cargo</i> | 9.47m manifest tonnes |
| <i>NPAT</i>  | \$10.1m               |

## Distributions

Lyttelton Port Company Ltd will pay dividends to the shareholders after taking into account its profitability and future investment requirements. The dividends payable to the shareholders will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The dividends are forecast to be paid in two instalments in March and of each financial year and are also forecast to be fully imputed for tax purposes.

To assist the shareholders with budgeting, the current dividend policy is to pay a minimum of 50% of tax paid profit.

Based on our latest advice to the market of a profit expectation of between 9 and 10 million dollars for the 2009/10 year the expected dividends will be

|                       |
|-----------------------|
| 2009/10               |
| \$4.5 - \$5.0 million |

## Information to be provided to shareholders

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

The statement of intent will be submitted to the shareholders annually. The directors will include any other information they consider appropriate.

Where appropriate, revised financial forecasts will be submitted to the shareholders.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

## Acquisition/divestment procedures

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Lyttelton Port Company Ltd.

When the subscription, acquisition or divestment is a major transaction as defined in the Companies Act 1993, s129 (2), the transaction will be subject to shareholders' approval by special resolution.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by LPC's directors and staff.

## Compensation sought from local authority

At the request of the shareholder[s], the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken.

### **Estimate of commercial value of shareholder's investment**

The book value of shareholders' funds as at 31 December 2009 was \$ 130.7m. The market capitalisation as at 31 December 2009 was \$ 245.4m.

### **Role in the Christchurch City Council group and regional economy**

#### **a) Commercial relationships within the CCC group**

We have the following commercial relationships within the CCC group as present:

- Orion – conduit for electricity suppliers to the Port
- Red Bus – charter buses
- VBase – function rooms

#### **b) Role in the growth of the regional economy**

Lyttelton Port Company Ltd recognises it has an important role to play in supporting the economic performance and development of the Canterbury region. Lyttelton Port Company Ltd needs to ensure that the exporter and importers in the region are receiving a highly competitive and quality service at the port.

### **Urban Development Strategy**

LPC recognises the broad objectives of the Urban Development Strategy (UDS). The Port is an important part of the local economy and LPC will strive to operate in a way that ensures that the economy is well serviced in the provision of import and export facilities.

Whilst LPC is not directly able to action or advance the UDS, the company is well placed, due to its position in the transport chain, to provide advice relating to the integration of transport networks to service the Greater Christchurch region.

## Appendix to Statement of Intent for the year ending 30 June 2011 – Accounting Policies

### Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies have been applied consistently by Group entities.

#### (a) Basis of Consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### (ii) Transactions Eliminated on Consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

##### (iii) Investments in Equity Securities

Investments in equity securities of subsidiaries are measured at cost in the separate financial statements of the Company.

#### (b) Foreign Currency

##### (i) Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

#### (c) Financial Instruments

##### (i) Non-Derivative Financial Instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the 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.

##### Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

##### Trade and Other Payables

Trade and other payables are stated at cost.

##### (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 the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship (see below).

#### Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.

#### (d) Property, Plant and Equipment

##### (i) Recognition and Measurement

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

The cost of land, certain buildings and certain harbour structures at 1 July 2005, was determined by reference to fair value as at 30 June 2005. Fair value at that date was determined by independent registered valuers. The basis of valuation is the highest and best use and disposal costs are not deducted. These fair values were adopted as deemed cost on 1 July 2005.

Increases and decreases in the value of assets were recognised as transitional adjustments to equity.

The cost of other assets was determined by reference to historical cost at that date.

Subsequent additions are recorded at cost which includes expenditures that are directly attributable to the acquisition of the asset including financing costs. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

##### (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 the income statement as incurred.

##### (iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment except for capital work in progress.

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

- buildings 1-50 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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

**(e) Intangible Assets****(i) Resource Consents and Easements**

Resource consents and easements over land provide an enduring benefit for the Company and the Group's operations. These are recorded at cost and are amortised to the Income Statement on a straight line basis over periods of 5-10 years (being the periods of assessed benefit). Resource consents and easements are stated at cost less amortisation provided to date.

**(ii) Other Intangible Assets**

Other intangible assets including software that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**(iii) Subsequent Expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement when incurred.

**(iv) Amortisation**

Amortisation is recognised in the income statement 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.
- resource consents and easements 5-10 years

**(f) Leased Assets****(i) Group as Lessee**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

**(ii) Group as Lessor**

Assets leased under operating leases are recorded as Property, Plant and Equipment.

**(g) Inventories**

Inventories, consisting of fuel stocks, maintenance parts and consumable supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

**(i) Impairment of Receivables**

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of expected future cash flows. Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on each individual receivable. All receivables that are considered significant are subject to this approach.

**(ii) Non-Financial Assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units

are used to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (i) Employee Benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due. The Group is party to a multi-employer defined benefit pension plan in respect of certain individuals.

As sufficient information is not available for the Group to account for this plan as a defined benefit plan, it is accounted for as a defined contribution plan, with obligations for contributions recognised as an expense in the income statement when they are due. See note 16 for additional information.

#### (i) Long-Term Employee Benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

#### (ii) Short-Term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### (k) Revenue

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

#### (i) Services

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

#### (ii) Rental Income

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease.

#### (iii) Deferred Lease Income

Deferred lease income is revenue received in advance which is recorded as a liability and amortised to income on a straight line basis over the period to which the lease income relates.

#### (l) Lease Payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### (m) Finance Income and Expenses

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

Finance expenses comprise interest expense on borrowings and the ineffective portions on hedging instruments that are recognised in the income statement. All borrowing costs are recognised in the income statement 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 allowed by NZ IAS 23 Borrowing Costs.

(n) 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.

(o) Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement 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. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

(p) Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders with the average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

(q) Segment Reporting

As of 1 July 2009 the Group determines its operating segments based on the information provided to the Board of Directors who are the Group's chief operating decision maker. This change in accounting policy is due to the adoption of NZIFRS 8 Operating Segments. Previously operating segments were determined in accordance with NZ IAS 14 Segment Reporting.

The Group has one reportable business segment providing and managing port and associated facilities in Christchurch, New Zealand.

(r) New Standards and Interpretations Not Yet Adopted

A number of new standards and interpretations are not yet effective for the year ended 30 June 2009, and have not been applied in preparing these consolidated financial statements.

NZ IAS 1 Presentation of Financial Statements will become mandatory for the Group's 2010 financial statements.

The Group has not yet determined the potential effect of these changes.

The following new standards and interpretations are not expected to have any material impact on the Group's financial statements when they become effective:

- NZ IFRS 2 Amendments to Share Based Payments: Vesting Conditions and Cancellations.
- NZ IFRS 3 Business Combinations (revised)
- NZ IAS 23 Borrowing Costs (revised)
- NZ IAS 27 Consolidated and Separate Financial Statements (amended)
- NZ IAS 32 Amendment to Puttable Financial Instruments and Obligations Arising on Liquidation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about

the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.