

**Auckland Council Investments Limited  
Consolidated financial statements  
for year ended 30 June 2018**

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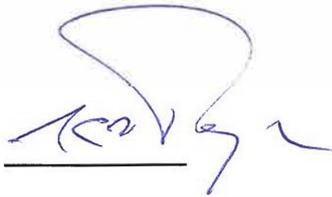
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## Directors' report

The Board of Directors have pleasure in presenting the annual report of Auckland Council Investments Limited, incorporating the consolidated financial statements and the auditor's report, for the year ended 30 June 2018.

The Board of Directors of Auckland Council Investments Limited authorised these consolidated financial statements presented on pages 5 to 62 for issue on 29 August 2018.

For and on behalf of the Board.



Director



Director

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF AUCKLAND COUNCIL INVESTMENTS LIMITED'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Auckland Council Investments Limited Group (the Group). The Auditor-General has appointed me, Brendan Lyon, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

#### Opinion

We have audited:

- the financial statements of the Group on pages 5 to 59, that comprise the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in equity and consolidated 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; and
- the statement of service performance information of the Group on pages 60 to 62.

In our opinion:

- the financial statements of the Group on pages 5 to 59:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards (PBE Standards).
- the statement of service performance information of the Group on pages 60 to 62 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2018.

Our audit was completed on 29 August 2018. This is the date at which our opinion is expressed.

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

#### The financial statements are prepared appropriately on other than going concern basis

Without modifying our opinion, we considered the accounting policy on page 9, about the financial statements being prepared on other than a going concern basis. We consider the basis to be appropriate as the company has transferred its shares in Ports of Auckland Limited and Auckland International Airport Limited to Auckland Council on 2 July 2018 and will subsequently be disestablished.

#### Basis for 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 and the performance information

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 also responsible for preparing the performance information for the Group.

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group'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 the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

#### Responsibilities of the auditor for the audit of the financial statements and the performance information

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

Reasonable assurance is a high level of assurance, but 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 shareholders, taken on the basis of these financial statements and the performance information.

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

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 and the performance information, 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 for 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 evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- Where the consolidated financial statements have been prepared using a going concern basis, 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 and the performance information 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.
- Where the consolidated financial statements have been prepared on a basis other than going concern, we consider if the other basis of accounting used by the directors is appropriate in the specific circumstances and if the consolidated financial statements contain the necessary disclosures. If we conclude that the preparation of the consolidated financial statements on a basis other than going concern is appropriate, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our auditor's report.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely 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 in our audit.

Our responsibilities arise from the Public Audit Act 2001.

#### **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 New Zealand Auditing and Assurance Standards Board.

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



**Brendan Lyon, Partner  
for Deloitte Limited  
On behalf of the Auditor-General  
Auckland, New Zealand**

**Auckland Council Investments Limited**  
**Consolidated statement of comprehensive revenue and expenses**  
**For year ended 30 June 2018**

**Consolidated statement of comprehensive revenue and expense**

For the year ended 30 June 2018

|   | Notes     | 2018<br>\$'000   | 2017<br>\$'000   |
|---|-----------|------------------|------------------|
| <b>Income</b>   |           |                  |                  |
| Service and other revenue   | 4         | 243,261          | 223,550          |
| Interest income   |           | 78               | 208              |
| Other gains   | 5         | <u>16,955</u>    | <u>17,947</u>    |
| <b>Total income</b>   |           | <u>260,294</u>   | <u>241,705</u>   |
| <b>Expenditure</b>  |           |                  |                  |
| Personnel   | 6         | (74,500)         | (65,888)         |
| Depreciation  | 16        | (19,448)         | (20,731)         |
| Amortisation  | 17        | (3,470)          | (3,100)          |
| Finance expense   | 7         | (12,616)         | (11,644)         |
| Other   | 8         | <u>(67,853)</u>  | <u>(62,875)</u>  |
| <b>Total operating expenditure</b>  |           | <u>(177,887)</u> | <u>(164,238)</u> |
| <b>Surplus before tax and share of equity accounted investments surplus</b> |           | 82,407           | 77,467           |
| Share of equity accounted investments surplus                               | 18(a),(b) | <u>146,355</u>   | <u>73,868</u>    |
| <b>Surplus before tax</b>   |           | <u>228,762</u>   | <u>151,335</u>   |
| Income tax expense  | 9         | <u>(8,724)</u>   | <u>(13,123)</u>  |
| <b>Surplus after tax</b>  |           | <u>220,038</u>   | <u>138,212</u>   |
| Surplus after tax attributable to:  |           |                  |                  |
| Equity holders of Auckland Council Investments Limited                      |           | <u>220,038</u>   | <u>138,212</u>   |
|   |           | <u>220,038</u>   | <u>138,212</u>   |
| <b>Other comprehensive revenue and expense</b>                              |           |                  |                  |
| Net change in fair value of land, buildings and wharves, net of tax         | 28(a)     | 29,805           | 17,265           |
| Cash flow hedges  | 28(a)     | 5,068            | 2,543            |
| Share of associates' movements in reserves                                  | 28(a)     | 264,329          | 5,160            |
| Fair value gain, net of tax - available-for-sale financial assets           | 28(a)     | <u>7,397</u>     | <u>10,520</u>    |
| <b>Total other comprehensive income</b>                                     |           | <u>306,599</u>   | <u>35,488</u>    |
| <b>Total comprehensive income</b>   |           | <u>526,637</u>   | <u>173,700</u>   |
| Total comprehensive revenue and expense for the year is attributable to:    |           |                  |                  |
| Equity holders of Auckland Council Investments Limited                      |           | <u>526,637</u>   | <u>173,700</u>   |

**Auckland Council Investments Limited**  
**Consolidated statement of changes in equity**  
**For year ended 30 June 2018**

**Consolidated statement of changes in equity**

For year ended 30 June 2018

|   | Notes | Attributable to equity holders of the Group |   |                           |   |  | Accumulated funds<br>\$'000 | Total equity<br>\$'000 |
|---|-------|---|---|---------------------------|---|--|-----------------------------|------------------------|
|   |       | Contributed equity<br>\$'000                | Property, plant and equipment revaluation reserve<br>\$'000 | Hedging reserve<br>\$'000 | Share of equity accounted investments reserve<br>\$'000 | Available-for-sale investments reserve<br>\$'000 |                             |                        |
| <b>Balance as at 1 July 2016</b>                |       | 1,017,881                                   | 146,496   | (3,235)                   | 452,274   | 11,260   | 91,669                      | 1,716,345              |
| <b>Comprehensive income</b>                     |       |   |   |                           |   |  |                             |                        |
| Surplus for the year                            |       | -   | -   | -                         | -   | -  | 138,212                     | 138,212                |
| Other comprehensive revenue and expense         | 28(a) | -   | 17,265  | 2,543                     | 5,160   | 10,520   | -                           | 35,488                 |
| <b>Total comprehensive revenue and expense</b>  |       | -   | 17,265  | 2,543                     | 5,160   | 10,520   | 138,212                     | 173,700                |
| <b>Transactions with owners</b>                 |       |   |   |                           |   |  |                             |                        |
| Dividends                                       | 29    | -   | -   | -                         | -   | -  | (85,858)                    | (85,858)               |
| Transfers of tax balances for nil consideration | 28(c) | -   | -   | -                         | -   | -  | 6,756                       | 6,756                  |
| <b>Balance as at 30 June 2017</b>               |       | <u>1,017,881</u>                            | <u>163,761</u>  | <u>(692)</u>              | <u>457,434</u>  | <u>21,780</u>                                    | <u>150,779</u>              | <u>1,810,943</u>       |
| <b>Balance as at 1 July 2017</b>                |       | 1,017,881                                   | 163,761   | (692)                     | 457,434   | 21,780   | 150,779                     | 1,810,943              |
| <b>Comprehensive income</b>                     |       |   |   |                           |   |  |                             |                        |
| Surplus for the year                            |       | -   | -   | -                         | -   | -  | 220,038                     | 220,038                |
| Other comprehensive revenue and expense         | 28(a) | -   | 29,805  | 5,068                     | 264,329   | 7,397  | -                           | 306,599                |
| <b>Total comprehensive revenue and expense</b>  |       | -   | 29,805  | 5,068                     | 264,329   | 7,397  | 220,038                     | 526,637                |
| <b>Transactions with owners</b>                 |       |   |   |                           |   |  |                             |                        |
| Dividends                                       | 29    | -   | -   | -                         | -   | -  | (129,418)                   | (129,418)              |
| Transfers of tax balances for nil consideration | 28(c) | -   | -   | -                         | -   | -  | 3,465                       | 3,465                  |
| <b>Balance as at 30 June 2018</b>               |       | <u>1,017,881</u>                            | <u>193,566</u>  | <u>4,376</u>              | <u>721,763</u>  | <u>29,177</u>                                    | <u>244,864</u>              | <u>2,211,627</u>       |

**Auckland Council Investments Limited**  
**Consolidated statement of financial position**  
**As at 30 June 2018**

**Consolidated statement of financial position**

As at 30 June 2018

|                                      | Notes | 2018<br>\$'000          | 2017<br>\$'000          |
|--------------------------------------|-------|-------------------------|-------------------------|
| <b>ASSETS</b>                        |       |                         |                         |
| <b>Current assets</b>                |       |                         |                         |
| Cash and cash equivalents            | 11    | 1,317                   | 8,013                   |
| Receivables                          | 12    | 54,818                  | 51,491                  |
| Derivative financial instruments     | 24    | 3,726                   | 318                     |
| Inventories                          | 13    | 4,130                   | 3,116                   |
| Tax receivables                      |       | -                       | -                       |
| Non current assets held for sale     | 14    | <u>18,406</u>           | <u>68,705</u>           |
| <b>Total current assets</b>          |       | <u><b>82,397</b></u>    | <u><b>131,643</b></u>   |
| <b>Non-current assets</b>            |       |                         |                         |
| Receivables                          | 12    | 2,470                   | 2,639                   |
| Derivative financial instruments     | 24    | -                       | 1,568                   |
| Investment property                  | 15    | 184,284                 | 129,435                 |
| Property, plant and equipment        | 16    | 936,553                 | 821,343                 |
| Intangible assets                    | 17    | 44,293                  | 23,937                  |
| Equity accounted investments         | 18    | 1,436,272               | 1,084,553               |
| Available-for-sale financial assets  | 20    | <u>43,149</u>           | <u>35,752</u>           |
| <b>Total non-current assets</b>      |       | <u><b>2,647,021</b></u> | <u><b>2,099,227</b></u> |
| <b>Total assets</b>                  |       | <u><b>2,729,418</b></u> | <u><b>2,230,870</b></u> |
| <b>LIABILITIES</b>                   |       |                         |                         |
| <b>Current liabilities</b>           |       |                         |                         |
| Payables                             | 21    | 42,107                  | 32,591                  |
| Employee entitlements                | 22    | 10,794                  | 9,058                   |
| Borrowings                           | 23    | 7,594                   | 6,202                   |
| Derivative financial instruments     | 24    | 1,330                   | 5,325                   |
| Tax payable                          |       | -                       | 441                     |
| Provisions                           | 26    | <u>1,162</u>            | <u>1,033</u>            |
| <b>Total current liabilities</b>     |       | <u><b>62,987</b></u>    | <u><b>54,650</b></u>    |
| <b>Non-current liabilities</b>       |       |                         |                         |
| Payables                             | 21    | 579                     | 601                     |
| Employee entitlements                | 22    | 1,033                   | 1,053                   |
| Borrowings                           | 23    | 377,354                 | 291,713                 |
| Derivative financial instruments     | 24    | 6,915                   | 8,118                   |
| Deferred tax liabilities             | 25    | <u>68,923</u>           | <u>63,792</u>           |
| <b>Total non-current liabilities</b> |       | <u><b>454,804</b></u>   | <u><b>365,277</b></u>   |
| <b>Total liabilities</b>             |       | <u><b>517,791</b></u>   | <u><b>419,927</b></u>   |
| <b>Net assets</b>                    |       | <u><b>2,211,627</b></u> | <u><b>1,810,943</b></u> |
| <b>EQUITY</b>                        |       |                         |                         |
| Contributed equity                   | 27    | 1,017,881               | 1,017,881               |
| Reserves                             | 28(a) | 948,882                 | 642,283                 |
| Accumulated funds                    | 28(c) | <u>244,864</u>          | <u>150,779</u>          |
| <b>Total equity</b>                  |       | <u><b>2,211,627</b></u> | <u><b>1,810,943</b></u> |

**Consolidated statement of cash flows**

For year ended 30 June 2018

|   | Notes | 2018<br>\$'000   | 2017<br>\$'000  |
|---|-------|------------------|-----------------|
| <b>Cash flows from operating activities</b>                                     |       |                  |                 |
| Receipts from customers   |       | 278,400          | 251,025         |
| Interest received   |       | 78               | 208             |
| Dividends received  |       | 60,244           | 54,381          |
| Payments to suppliers and employees   |       | (178,557)        | (171,516)       |
| Interest paid   |       | (12,381)         | (11,584)        |
| Net income tax (refunded)/paid  |       | 6,176            | 1,724           |
| Net cash from (used in) operating activities                                    | 30    | <u>153,960</u>   | <u>124,238</u>  |
| <b>Cash flows from investing activities</b>                                     |       |                  |                 |
| Payments for property, plant and equipment                                      |       | (95,360)         | (70,606)        |
| Payments for investment property  |       | (10,790)         | (11,127)        |
| Proceeds from disposal of business, net of cash acquired                        |       | (7,140)          | -               |
| Sale of property, plant and equipment   |       | 4,865            | 415             |
| Sale of investment property   |       | -                | 15,285          |
| Payments for intangible assets  |       | (23,588)         | (6,741)         |
| Net movement in advances to related parties                                     |       | (6,000)          | (4,776)         |
| Interest capitalised  |       | (2,554)          | (1,229)         |
| Net cash flow from investing activities   |       | <u>(140,567)</u> | <u>(78,779)</u> |
| <b>Cash flows from financing activities</b>                                     |       |                  |                 |
| Proceeds from borrowings  |       | 967,969          | 146,500         |
| Repayment of borrowings   |       | (882,500)        | (101,500)       |
| Dividends paid to company's shareholder   | 29    | (106,950)        | (85,858)        |
| Net cash outflow from financing activities                                      |       | <u>(21,481)</u>  | <u>(40,858)</u> |
| <b>Net increase/(decrease) in cash and cash equivalents and bank overdrafts</b> |       | <b>(8,088)</b>   | 4,601           |
| Cash and cash equivalents and bank overdrafts at beginning of the year          |       | <u>1,811</u>     | <u>(2,790)</u>  |
| <b>Cash, cash equivalents, and bank overdrafts at the end of the year</b>       | 11    | <u>(6,277)</u>   | <u>1,811</u>    |

## **1 General information**

Auckland Council Investments Limited ("ACIL", "the Company" or "the Parent") is an investment management company, which owns all the shares in Ports of Auckland Limited (POAL) and 22.15% of the shares in Auckland International Airport Limited (AIAL).

The purpose of ACIL is to:

- a) support the Council's vision;
- b) hold and manage key strategic assets of Auckland Council for the long term economic and social well being of the Auckland Region;
- c) bring a strong commercial focus to the ownership and management of the Council's investments in POAL, AIAL, and AFSL; and
- d) provide an efficient structure for the ownership of these assets.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Bledisloe Building, 24 Wellesley Street, Auckland.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements have been prepared on a basis other than going concern. As a result of the Long Term Plan process Auckland Council (the ultimate parent of ACIL) decided to disestablish ACIL in 2019 and transfer its investments in POAL and AIAL to Auckland Council.

As a result of the plan to disestablish ACIL and distribute the holdings in POAL and AIAL to Auckland Council the financial statements have been prepared on a basis other than going concern. The transfer of POAL and AIAL result in the continuation of substantially all of the operations of the Group. On that basis, the presentation and disclosure requirements of PBE IPSAS 5 Non Current Assets Held for Sale and Discontinued Operations have not been applied and those Group balances that will be transferred have not been reclassified as current within the statement of Financial Position. ACIL parent company balances relating to payables, accruals and related party receivables have been reclassified as current.

The policies applied in the current reporting period are consistent with prior period, apart from the following amendments:  
-Due to the planned disestablishment of ACIL, a provision of \$24.9k has been recognised in relation to wind up costs. For further details see note 37.

### **(a) Basis of preparation**

#### **Statement of compliance**

ACIL is a company registered under the Companies Act 1993.

The consolidated financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 2013 and the Local Government Act 2002 (LGA).

The consolidated financial statements of the Company and its subsidiaries (together "the Group") have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Public Benefit Entity Standards (PBE Standards) and authoritative notices that are applicable to entities that apply PBE Standards.

The Group is classified as a Tier 1 reporting entity and it applies full PBE Standards. These standards are based on International Public Sector Accounting Standards.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment, derivative instruments and investment property.

#### **Functional and presentation currency**

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000) except where otherwise stated. The functional currency of the Group is New Zealand dollars.

## **2 Summary of significant accounting policies (continued)**

### **Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted**

#### *Impairment of revalued assets (amendments to PBE IPSAS 21 and 36) – effective date 1 January 2019*

The amendment brings revalued property, plant and equipment and intangible assets within the scope of PBE IPSAS 21 and PBE IPSAS 26.

#### *PBE IPSAS 35 Consolidated financial statements - effective date 1 January 2019*

The standard introduces a new definition of control requiring both power and exposure to variable benefits and includes guidance on assessing control.

#### *PBE IPSAS 37 Joint arrangements - effective date 1 January 2019*

Establishes two types of joint arrangements (1) joint operations and (2) joint ventures based on whether the investor has rights to the assets and obligations for the liabilities of the joint arrangement or rights to the net assets of the joint arrangement.

#### *PBE IPSAS 38 Disclosures of interest in other entities - effective date 1 January 2019*

Requires increased disclosures regarding judgments and assumptions made in determining whether an entity controls, jointly controls or significantly influences another entity.

#### *PBE IFRS 9 Financial Instruments - effective date 1 January 2021*

This standard has been released in advance of IPSASB issuing a new financial instruments standard based on IFRS 9. This standard gives mixed groups the opportunity to early adopt a PBE standard that is based on the for profit standard NZ IFRS 9 on the same date that NZ IFRS 9 becomes mandatory in the for-profit sector.

### **(b) Consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at balance date and the results of all subsidiaries for the year ended at balance date.

Subsidiaries are all those entities over which the Group has the capacity to control their financial and operating policies so as to obtain benefit from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries acquired or disposed of during the period are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Inter-entity transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **Disposal**

Disposals of subsidiaries under common control are treated as non - cash distributions to owners and are disposed of at net book value with no gain or loss recognised.

#### *(ii) Associates*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture, generally accompanying a shareholding of between 20% and 50% of the voting rights. The investment in an associate is initially recognised at cost or deemed cost under merger accounting. Subsequently, the Company's investments in associates are carried at cost. The investment in associates in the Group financial statements is recognised using the equity method. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

## **2 Summary of significant accounting policies (continued)**

Post acquisition the carrying amount is increased or decreased to recognise the Group's share of the surplus or deficit and other comprehensive revenue and expense of the associate after the date of acquisition. The Group's share of the surplus or deficit of the associate is recognised in the Group's statement of comprehensive revenue and expense. Distributions received from an associate reduce the carrying amount of the investment.

If the Group's share of deficits of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further deficits unless it has incurred obligations or made payments on behalf of the associate. After the Group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations made on behalf of the associate. If the associate subsequently reports surpluses, the Group will resume recognising its share of those surpluses only after its share of surpluses equals or exceeds the share of deficits not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in surplus or deficit.

### *(iii) Joint ventures*

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures take many different forms and structures. For accounting purposes joint ventures are distinguished into three types of categories, those being jointly controlled operations, jointly controlled assets and jointly controlled entities. The following characteristics are common to all joint ventures:

- a) two or more venturers are bound by a contractual arrangement; and
- b) the contractual arrangement establishes joint control.

The interest in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of profits or losses of the jointly controlled entity is recognised in other comprehensive revenue and expense, and the share of movements in reserves is recognised in reserves.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **(c) Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in surplus or deficit.

### **(d) Property, plant and equipment**

Property, plant and equipment are stated at cost or fair value less accumulated depreciation and impairment losses. Items of property, plant and equipment are initially recognised at cost, which includes purchase price plus directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Major asset classes are revalued on a regular basis not exceeding three years and these are noted below.

The cost of assets constructed by the Group includes the cost of all materials used in construction, associated borrowing costs, direct labour on the project and an appropriate proportion of variable and fixed overheads. The Group capitalises borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is deemed as having significant expenditure and takes a substantial period, greater than six months, to complete and prepare the asset for its intended use. Costs cease to be capitalised as soon as the asset is ready for productive use.

## 2 Summary of significant accounting policies (continued)

Property, plant and equipment consists of:

(i) *Operational assets*

These include land, buildings, plant and equipment and wharves.

(ii) *Infrastructural assets*

These include pavements.

### Initial recognition

Property, plant and equipment are initially shown at cost or at fair value in the case where an asset is acquired at no cost or for a nominal cost. Cost includes any costs that are directly attributable to the acquisition of the items. In the case of the assets acquired by the Company and Group on establishment at 1 November 2010 cost was the carrying value of the asset by the previous owning council or CCO.

### Subsequent measurement

The following classes of assets are subsequently measured at fair value less depreciation. All other classes of assets are measured at historical cost less accumulated depreciation and accumulated impairment.

Revaluations of land, buildings and wharves are accounted for on a class of asset basis.

Land, buildings and wharves are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every 3 years. Each year, the Company considers the adequacy of the valuation of its assets to ensure the carrying value reflects fair value.

| <u>Class of asset measured at fair value</u>  | <u>Method applied to determine fair value</u>  |
|---|--|
| <ul style="list-style-type: none"> <li>• Land and buildings</li> <li>• Wharves</li> </ul> | <ul style="list-style-type: none"> <li>Market-based evidence/income</li> <li>Depreciated Replacement Cost</li> </ul> |

For the assumptions used when applying the methods above please refer to note 16.

Increases in asset carrying amounts due to revaluation increase revaluation reserves in equity. Decreases in asset carrying amounts decrease revaluation reserves in equity only to the extent that the asset class has sufficient revaluation reserves to absorb the reduction. All other decreases are charged to surplus or deficit.

If a revaluation increase reverses a decrease previously recognised in the statement of comprehensive revenue and expense, the increase is recognised first in the statement of comprehensive revenue and expense to reverse previous decreases. Any residual increase is applied to revaluation reserves in equity.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably.

In most instances, an additional item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the statement of comprehensive revenue and expense. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

## 2 Summary of significant accounting policies (continued)

### Depreciation

Land is not depreciated. Depreciation on assets is provided on a straight line basis at rates that will write down the cost of the assets to their estimated residual values over their useful lives. The useful lives of major classes of assets have been estimated as follows:

| <u>Class of asset depreciated</u>     | <u>Estimated useful life</u><br><u>in years</u> |
|---------------------------------------|---|
| Operational                           |   |
| • Buildings                           | 20-50   |
| • Plant and equipment                 | 3-20  |
| • Wharves                             | 50-100  |
| • Other property, plant and equipment | 3-20  |
| Infrastructural                       |   |
| • Pavement                            | 25-85   |

The residual value and remaining useful life of an asset is reviewed, and adjusted if applicable, at each year end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 2(g)).

### Capital work in progress

Capital work in progress is recognised at cost less impairment and is not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

#### (e) Investment properties

Land, buildings and wharves, which are not rented or intended for operation purposes and are rented with the principal objective to earn rental and/or capital appreciation, are accounted for as investment property. Investment property is measured initially at its cost, including transaction costs. After initial recognition, investment property is carried at fair value, representing open market value determined annually by external independent valuers. Changes in fair values are recorded in the statement of comprehensive revenue and expense as part of other revenue. Investment properties are not depreciated.

Transfers are made to investment properties when there is a change in use. This may be evidenced by ending owner occupation, commencement of an operating lease to another party or commencement of construction or development for future use as investment property.

If the fair value of investment properties under construction cannot be reliably determined but it is expected the fair value of the property can be reliably determined on construction completion, the investment properties will be measured at cost until a fair value can be reliably determined or construction completion.

Investment properties are derecognised when they have been disposed of. The net gain or loss on disposal is calculated as the difference between the carrying amount of the investment property at the time of the disposal and the proceeds on disposal and is included in the income statement in the reporting period in which the disposal settled.

#### (f) Intangible assets

Intangible assets are initially recorded at cost. Where acquired in a business combination, the cost is their fair value at the date of acquisition. The cost of an internally generated intangible asset represents expenditure incurred in the development phase only.

Subsequent to initial recognition, intangible assets with finite useful lives are recorded at cost, less any amortisation and impairment losses, and are reviewed annually for impairment losses. Assets with indefinite useful lives are not amortised but are tested, at least annually, for impairment, and are carried at cost less accumulated impairment losses.

Realised gains and losses arising from the disposal of intangible assets are recognised in the statement of comprehensive revenue and expense in the period in which the disposal occurs.

## **2 Summary of significant accounting policies (continued)**

Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Impairment losses resulting from impairment are reported in surplus or deficit.

### **Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (3 to 5 years).

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from 3 to 5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably.

### **Other intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to surplus or deficit in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

### **(g) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and, whenever there is an indication of impairment. At each balance date the Group reviews the carrying amounts of its other tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable value. An impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## 2 Summary of significant accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (h) Investments and other financial assets

#### Financial assets

The Group classifies financial assets in the following categories:

- loans and receivables; and
- available-for-sale financial assets.

The classification depends on the nature and purpose for which the financial assets were acquired, which is determined by the Group when they are acquired.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in surplus or deficit.

Purchases and sales of financial assets are recognised at trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### *(i) Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the period end date, which are classified as non-current assets.

After initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method.

#### *(ii) Available-for-sale financial assets*

Available-for-sale financial assets are non derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless the investment matures or the Group intends to dispose of them within 12 months of the end of the reporting period.

After initial recognition they are measured at fair value, with gains and losses recognised in other comprehensive revenue and expense except for impairment losses, which are recognised in surplus or deficit.

### (i) Impairment of financial assets

#### *(i) Assets carried at amortised cost*

The Group reviews at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor; or
- a breach of contract, such as a default or delinquency in interest or principal payments; or
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or

## 2 Summary of significant accounting policies (continued)

- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - a) Adverse changes in the payment status of borrowers in the portfolio; and
  - b) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the financial asset's original effective interest rate. The asset's carrying amount is reduced and the loss is recognised in "other" expenditure. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised.

### (ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired.

If any such evidence exists for impairment of available-for-sale financial assets, the cumulative loss which has been recognised directly in equity - measured as the difference between acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in surplus or deficit - is removed from equity and recognised in surplus or deficit.

### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (j) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability or to highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (i) Derivatives that qualify for hedge accounting

When a derivative is designated as a hedging instrument, the Group documents a hedge relationship as either a cash flow hedge (hedge of a forecast transaction) or a fair value hedge (hedge of the fair value of a recognised asset or liability). Also documented are the nature of the risk being hedged, its risk-management objective, strategy for hedge transactions, identification of the hedging instrument and hedged item, and how the hedging instrument's effectiveness is to be assessed.

## **2 Summary of significant accounting policies (continued)**

### *(ii) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in surplus or deficit in the statement of comprehensive revenue and expense, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of the interest-rate swaps that hedge fixed-rate borrowings is recognised within "finance expense". The gain or loss relating to the ineffective portion is recognised within "other gains/(losses)". Changes in the fair value of the hedged fixed-rate borrowings attributable to interest-rate risk are recognised within "finance expense".

Hedge accounting is discontinued, when the Group revokes the hedging instrument, it expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to surplus/deficit from that date over the period to maturity.

### *(iii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the "hedging reserve". The gain or loss relating to the ineffective portion is recorded within "other gains/(losses)".

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is recorded. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in the "hedging reserve" transfers to "other gains/(losses)".

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains and losses that were recognised directly in equity will be included in the initial cost or carrying amount of the asset or liability.

### *(iv) Derivatives that do not qualify for hedge accounting*

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in surplus or deficit.

## **(k) Inventory**

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average method.

The amount of any write down in the value of inventories is recognised in surplus or deficit.

## **(l) Receivables**

Receivables are amounts due from trade debtors and other customers. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non current assets.

Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment.

For information on impairment of receivables refer to note 12.

## **(m) Cash and cash equivalents**

Cash and cash equivalents includes deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities.

## **2 Summary of significant accounting policies (continued)**

### **(n) Payables**

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non current liabilities.

Payables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

### **(o) Equity**

Equity is the Auckland Council's interest in the Company, being a CCO, as measured by total assets less total liabilities. Equity has been classified into various components to identify those portions of equity held for specific purposes. These components of equity are:

- reserves and accumulated funds;
- equity contributed by disestablished councils; and
- equity contributed by disestablished CCOs.

Equity contributed by disestablished councils and CCOs represents the transfer of assets on establishment of the Company.

The Group's objectives, policies and processes for managing capital are discussed in note 32.

### **(p) Borrowings**

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds and amortised cost is recognised in surplus or deficit over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the year-end date.

### **(q) Borrowing costs**

Borrowing costs are expensed, except for costs incurred for the construction of any qualifying asset, which are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings during the year.

### **Facility fees**

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### **(r) Current and deferred income tax**

Income tax benefit/expense comprises both current tax and deferred tax, and is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by balance date. Income tax benefit/expense is charged or credited, except when it relates to items charged or credited directly to equity.

Current tax is the amount of income tax payable or receivable based on the taxable surplus for the current period, plus any adjustments to income tax payable in respect of prior periods.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus.

## **2 Summary of significant accounting policies (continued)**

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surplus will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting surplus nor taxable surplus.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The purchase of losses from related parties under commercial arrangement is debited to income tax in benefit/expense.

Loss making companies within the ACIL group are required to share their losses outside the ACIL group without compensation. Accordingly no benefits accrue to the ACIL group and these losses are not recognised. Where the shareholder has, in its discretion, provided tax losses for no consideration to the ACIL group reducing its taxation obligations, the tax effect of these losses are debited to the income tax account and this is reflected through equity as a shareholder contribution.

### **(s) Goods and Services Tax (GST)**

All items in the financial statements are stated exclusive of GST, except for debtors and other receivables and creditors and other payables, which are presented on a GST inclusive basis.

The net amount of GST recoverable from, or payable to, the Inland Revenue is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing which is recovered from, or paid to, the taxation authority is classified as operating cash flow.

### **(t) Dividends**

Dividends are declared and paid prior to the end of the financial year.

Non cash distributions to owners are treated as being disposed of at net book value. Non cash distributions are treated as special dividends in the year they are declared.

## 2 Summary of significant accounting policies (continued)

### (u) Employee entitlements

#### Short-term employee entitlements

Employee benefits that the Group expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned, but not yet taken at balance date, retirement gratuities and long service entitlements expected to be settled within 12 months, and sick leave.

The Group recognises a liability for sick leave to the extent that absences in the coming period are expected to be greater than the sick leave entitlements earned in the coming period. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Group anticipates it will be used by staff to cover those future absences.

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

#### Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on periods of service, periods to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlement information; and
- the present value of the estimated future cash flows.

The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long term increase in remuneration for employees.

#### Superannuation schemes

##### *Defined contribution schemes*

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in surplus/(deficit) as incurred.

### (v) Provisions

The Group recognises a provision for future expenditure of uncertain amount or timing when:

- the Group has a present obligation (legal or constructive) as a result of past events; and
- it is probable that expenditures will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance expense”.

Director fees associated with the winding up on ACIL will be incurred post 30 June 2018 and have been recognised in the 2018 financial statements.

##### *Onerous contracts*

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

## **2 Summary of significant accounting policies (continued)**

### **(w) Revenue recognition**

Revenue is measured at the fair value of consideration received or receivable.

- revenue from rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.
- interest income is recognised using the effective interest method.
- dividends are recognised when the right to receive payment has been established.
- rental income is recognised on a straight line basis over the lease term.

### **(x) Leases**

#### *(i) Lessee*

The Group leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to surplus or deficit on a straight line basis over the period of the lease.

#### *(ii) Lessor*

Assets leased to third parties under operating leases are included in investment property and property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.

### **(y) Statement of cash flows**

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and at banks and investments in money market instruments, net of bank overdrafts.

The following terms are used in the statement of cash flows:

- operating activities - are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.
- investing activities - are the acquisition and disposal of non-current assets and other investments not included in cash equivalents.
- financing activities - are the activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

## **3 Critical accounting estimates and judgements**

In preparing these consolidated financial statements the Company and Group have made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, judgments and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year have been included below.

### **Useful lives of property, plant and equipment**

As described in note 2(d)

### **Fair value of property, plant and equipment and investment property**

### **3 Critical accounting estimates and judgements (continued)**

The Group revalues investment property annually and property, plant and equipment (specifically land, buildings and wharves) at least every three years. The valuations are performed by independent registered valuers (notes 15 and 16). The revaluation exercise requires judgement around the highest and best use of the property, plant and equipment and an estimation of the amounts for which these assets could be exchanged between willing parties in an arm's length transaction. The determination of value for these assets has a significant impact on the total asset value reported and in the case of property, plant and equipment the depreciation expense recognised.

#### **Fair value of derivative financial instruments**

The fair value of derivative financial instruments is determined by valuation experts using various valuation techniques. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance date. Interest rate caps are valued using an option pricing model and assumptions based on market conditions existing at balance date. The determination of the value of these assets or liabilities has a significant impact on the movements through equity.

#### **Income tax**

The Group has historically utilised tax losses from the companies within Auckland Council Group for nil consideration. The quantum of losses estimated for the current financial year is based on management's best estimate of the losses to be provided by Auckland Council.

#### 4 Service and other revenue

|  | 2018<br>\$'000        | 2017<br>\$'000        |
|--|-----------------------|-----------------------|
| Rental income                          | 9,962                 | 7,809                 |
| Port operations income                 | 232,020               | 214,586               |
| Dividend income                        | 1,279                 | 1,155                 |
| Other income                           | -                     | -                     |
| <b>Total service and other revenue</b> | <b><u>243,261</u></b> | <b><u>223,550</u></b> |

#### 5 Other gains

|  | 2018<br>\$'000       | 2017<br>\$'000       |
|--|----------------------|----------------------|
| <b>Non financial instruments</b>                               |                      |                      |
| Gain disposal of investments                                   | -                    | 9                    |
| Gain on sale of property, plant and equipment                  | 38                   | 1,194                |
| Gain on changes in fair value of investment property (note 15) | 16,917               | 16,744               |
| <b>Total other gains</b>                                       | <b><u>16,955</u></b> | <b><u>17,947</u></b> |

#### 6 Personnel

|  | 2018<br>\$'000       | 2017<br>\$'000       |
|--|----------------------|----------------------|
| Employee benefits expense                        | 68,350               | 58,742               |
| Defined contribution plan employer contributions | 2,226                | 2,062                |
| Restructuring costs and termination benefits     | 683                  | 228                  |
| Temporary staff expenditure                      | 3,241                | 4,856                |
| <b>Total personnel costs</b>                     | <b><u>74,500</u></b> | <b><u>65,888</u></b> |

Employer contributions to defined contribution plans include contributions to Kiwisaver.

#### 7 Finance expense

|                              | 2018<br>\$'000       | 2017<br>\$'000       |
|------------------------------|----------------------|----------------------|
| Interest - borrowings        | 12,616               | 11,644               |
| <b>Total finance expense</b> | <b><u>12,616</u></b> | <b><u>11,644</u></b> |

## 8 Other expenses

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Fees to auditors:  |                |                |
| - Audit of financial statements  | 392            | 381            |
| - Other assurance services (half year review of financial statements)          | 55             | 55             |
| - Other services   | -              | 79             |
| (Gain)/loss on bad and doubtful debts (note 12)                                | (36)           | 123            |
| Professional services  | 8,011          | 6,125          |
| Directors' fees  | 787            | 761            |
| Impairment of advances to joint ventures (note 12)                             | -              | 5,601          |
| (Impairment reversal) Impairment of investment in joint ventures (note 18(b))  | -              | (150)          |
| (Impairment reversal) Impairment of non current assets held for sale (note 14) | (2,184)        | 2,184          |
| Donations  | 18             | 4              |
| Loss on disposal of investment property  | 1,158          | -              |
| Loss on disposal of property, plant and equipment                              | 666            | 7              |
| Net foreign exchange loss / (gain)   | 35             | 6              |
| Other operating expenses   | <u>58,951</u>  | <u>47,699</u>  |
| Total other expenses   | <u>67,853</u>  | <u>62,875</u>  |

The auditor of ACIL is the Office of the Auditor-General. The approved auditor is Brendan Lyon of Deloitte Ltd.

## 9 Income tax expense

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Components of income tax expense</b>                              |                |                |
| Current tax  | 9,967          | 13,328         |
| Deferred tax (note 25)   | <u>(1,243)</u> | <u>(205)</u>   |
| Tax expense  | <u>8,724</u>   | <u>13,123</u>  |
| <b>Relationship between income tax expense and accounting profit</b> |                |                |
| Surplus before tax   | <u>228,762</u> | <u>151,335</u> |
| Prima facie income tax at 28%  | 64,053         | 42,374         |
| Prior period adjustment  | 313            | (23)           |
| Taxation effect of permanent differences                             | (23,054)       | (3,415)        |
| Tax loss offset  | (7,979)        | (5,028)        |
| Tax credits utilised   | (23,087)       | (20,785)       |
| Sundry   | <u>(1,522)</u> | <u>-</u>       |
| Tax expense  | <u>8,724</u>   | <u>13,123</u>  |

Aggregate current and deferred tax arising in the reporting period and not recognised in surplus/deficit but directly debited or credited to equity are shown in the following table:

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Amounts recognised directly in equity</b>                   |                |                |
| Property, plant and equipment revaluation reserve (note 28(a)) | 3,940          | -              |
| Hedging reserve - cash flow hedges (note 28(a))                | <u>1,974</u>   | <u>989</u>     |
|  | <u>5,914</u>   | <u>989</u>     |

ACIL is part of Auckland Council Group. ACIL Group will utilise losses from the wider Auckland Council Group in the 2018 tax return.

## 9 Income tax expense (continued)

Auckland Council has a subvention payment agreement and loss offset election with Watercare Services Limited which will be utilised for any residual taxable income. \$6,552,000 (2017: \$6,174,000) has been provided for payment to Watercare Services Limited for this subvention agreement.

## 10 Imputation credit account

|  | <b>2018</b>          | <b>2017</b>   |
|--|----------------------|---------------|
|  | <b>\$'000</b>        | <b>\$'000</b> |
| Imputation credits available for subsequent reporting periods based on a tax rate of 28% | <u><b>55,000</b></u> | <u>53,000</u> |

Auckland Council has a consolidated income tax Group. Significant entities in the Group are included with the exception of Watercare. The \$55 million (2017: \$53 million) of imputation credits relates to the consolidated financial Group. The total imputation credit available for use by each of the members of the consolidated income tax Group amount is \$24 million (2017: \$23 million).

## 11 Cash and cash equivalents

|              | <b>2018</b>         | <b>2017</b>   |
|--------------|---------------------|---------------|
|              | <b>\$'000</b>       | <b>\$'000</b> |
| Cash at bank | <u><b>1,317</b></u> | <u>8,013</u>  |

The carrying value of cash and cash equivalents approximates their fair value.

For the purposes of the statement of cash flows, cash and cash equivalents include bank balances and deposits on call, net of outstanding bank overdrafts. Cash and cash equivalents at balance date as shown in the statement of cash flows are:

|                                      | <b>2018</b>           | <b>2017</b>    |
|--------------------------------------|-----------------------|----------------|
|                                      | <b>\$'000</b>         | <b>\$'000</b>  |
| Cash at bank                         | <b>1,317</b>          | 8,013          |
| Bank overdrafts (note 23)            | <u><b>(7,594)</b></u> | <u>(6,202)</u> |
| Balances per statement of cash flows | <u><b>(6,277)</b></u> | <u>1,811</u>   |

## 12 Receivables

|                                     | <b>2018</b>          | <b>2017</b>   |
|-------------------------------------|----------------------|---------------|
|                                     | <b>\$'000</b>        | <b>\$'000</b> |
| <b>Current</b>                      |                      |               |
| Trade receivables                   | <b>32,324</b>        | 30,172        |
| Provision for doubtful receivables  | <b>(131)</b>         | (199)         |
| Related party receivables (note 35) | <b>18,759</b>        | 20,039        |
| GST receivable                      | <b>1,871</b>         | (578)         |
| Prepayments                         | <u><b>1,995</b></u>  | <u>2,057</u>  |
| <b>Total current receivables</b>    | <u><b>54,818</b></u> | <u>51,491</u> |

## 12 Receivables (continued)

### Non current

|                                      |                          |                          |
|--------------------------------------|--------------------------|--------------------------|
| Related party receivables (note 35)  | <u>2,470</u>             | <u>2,639</u>             |
| <b>Total non-current receivables</b> | <b><u>2,470</u></b>      | <b><u>2,639</u></b>      |
| <br><b>Total receivables</b>         | <br><b><u>57,288</u></b> | <br><b><u>54,130</u></b> |

The carrying value of receivables approximates their fair value. Trade receivables are generally on terms 7 to 30 days. The Group does not hold any collateral in respect of receivables.

### Impaired receivables

As at 30 June 2018 current trade receivables with a nominal value of \$59,100 (2017: \$137,000) were impaired.

During the prior year non current related party advances were impaired by \$2,768,000. The Impairment relates to fair value adjustments to the carrying values held in Nexus Logistics Limited immediately prior to the acquisition of the remaining 50% of its shares. The loss has been included in "other" expenditure.

### Past due but not impaired

As at 30 June 2018 trade receivables of \$9,424,000 were past due but not impaired (2017: \$9,257,000). These relate to a number of independent customers for whom there is no recent history of default.

The average credit period for trade receivables at 30 June 2018 is days 45.95 days (2017: 47.12 days).

The ageing profile of net trade receivables is as follows:

|                               | <b>2018</b>          | 2017                 |
|-------------------------------|----------------------|----------------------|
|                               | <b>\$'000</b>        | \$'000               |
| Not past due                  | <b>22,748</b>        | 18,741               |
| Past due 1 to 60 days         | <b>9,169</b>         | 10,282               |
| Past due greater than 60 days | <u>276</u>           | <u>950</u>           |
| Total individual impairment   | <b><u>32,193</u></b> | <b><u>29,973</u></b> |

Movements in the provision for impairment of receivables are as follows:

|  | <b>2018</b>       | 2017              |
|--|-------------------|-------------------|
|  | <b>\$'000</b>     | \$'000            |
| Balance at beginning of the year                         | <b>199</b>        | 227               |
| Provision for impairment recognised during the year      | <b>45</b>         | 106               |
| Receivables written off during the year as uncollectible | <b>(59)</b>       | (78)              |
| Unused amount reversed                                   | <u>(54)</u>       | <u>(56)</u>       |
| At 30 June   | <b><u>131</u></b> | <b><u>199</u></b> |

The creation and release of the provision for impaired receivables have been included in "other" expenditure. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within receivables do not contain impaired assets and are not past due.

## 12 Receivables (continued)

### Bad and doubtful trade receivables

The Group has recognised a reversal of \$36,000 in respect of bad and doubtful trade receivables (2017: 123,000). The loss has been included in "other" expenditure.

## 13 Inventories

|                         | 2018<br>\$'000 | 2017<br>\$'000 |
|-------------------------|----------------|----------------|
| At cost                 | 3,988          | 2,977          |
| At net realisable value | <u>142</u>     | <u>139</u>     |
| Total inventories       | <u>4,130</u>   | <u>3,116</u>   |

No inventories are pledged as security for liabilities.

### Inventory expense

The cost of inventories recognised as an expense was \$7,677,000 (2017: \$7,810,000). These costs were included in "other" expenditure.

## 14 Non current assets held for sale

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Land  | 7,770          | 7,770          |
| Buildings, wharves and improvements           | 10,636         | 8,440          |
| Investment properties - land                  | <u>-</u>       | <u>52,495</u>  |
| <b>Total non-current assets held for sale</b> | <u>18,406</u>  | <u>68,705</u>  |

Ports of Auckland Ltd have entered into a sale and purchase agreement with Auckland Council, for the acquisition of the Port of Onehunga. The new owners take possession on the 1st October 2018.

Buildings, wharves and improvements were impaired in prior year by \$2,184,000. In the current year, following valuation, this impairment has been written back.

In the prior year, assets held for sale also included Pikes Point property of \$46,600,000, which has since been reclassified back to Investment Property.

## 15 Investment properties

|   | 2018<br>\$'000 | 2017<br>\$'000  |
|---|----------------|-----------------|
| At fair value   |                |                 |
| Balance at beginning of the year                      | 129,435        | 159,305         |
| Transfer from property, plant and equipment (note 16) | (4,918)        | -               |
| Capitalised subsequent expenditure                    | 10,850         | 10,783          |
| Net gain from fair value adjustment (note 5)          | 16,917         | 16,744          |
| Disposals   | (14,600)       | (4,902)         |
| Non-current assets held for sale                      | <u>46,600</u>  | <u>(52,495)</u> |
| Balance at end of the year                            | <u>184,284</u> | <u>129,435</u>  |

Non-current assets held for sale of \$46,600,000 have been reclassified as Investment Property following the suspension of the East/West motorway link by the government. NZTA had previously sought to acquire the site to facilitate this development. Prior year assets held for sale also included Gabador property which was sold during the current financial year.

Reclassifications / net transfers in the financial year of \$4,918,000 represent a transfer from investment property to property, plant and equipment. This arose due to change in use of the site, which is now operated by POAL's wholly owned subsidiary Conlinxx Ltd.

The Group's investment properties are all categorised as Level 3 in the fair value hierarchy as described in note 31(d).

### Valuation basis

The Group measures investment property at fair value, which reflects market conditions at year end. To determine fair value the Group obtains investment property valuations annually by independent registered valuers.

#### POAL

The valuations as at 30 June 2018 and 30 June 2017 were performed by Seagar & Partners (Auckland) Limited and Colliers International. The valuers are registered valuers and have experience in the location and category of the investment properties being valued.

The valuations of the independent valuers are reviewed by management and adopted as the carrying value in the financial statements subject to any specific adjustments required. Management verifies all major inputs to the valuation, assesses valuation movements when compared to the prior year and holds discussions with the independent valuers as part of the process.

POAL's investment property portfolio comprises a mixture of lessor's interest in both terminating and perpetual ground leases together with freehold land and waterspace licences. The waterspace licences are treated in the same way as land in this portfolio as their value as investments have similar characteristics

The value of the lessor's interest in the land is essentially only the right to receive the rental income and the right to review the income periodically when scheduled reviews and renewals occur.

The valuation is based on market evidence at the date of valuation. The valuation methodologies used were based on direct sales comparison, or a direct capitalisation of rental revenue using market comparisons of capitalisation rates, supported by a discounted cash flow approach.

**15 Investment properties (continued)**

The following table summarises the valuation approach and the principle assumptions relating to major inputs used in establishing fair values in respect of POAL investment properties:

|  |   | 2018                                   | 2017                                   |
|--|---|--|--|
| Asset valuation technique  | Inputs used to measure fair value                 | Range of significant unobserved inputs | Range of significant unobserved inputs |
| <p><b>Market capitalisation</b></p> <p>A valuation technique which determines fair value by capitalising a property's sustainable net income at an appropriate, market derived rate of return with subsequent capital adjustments for near-term events, typically including letting up allowances, capital expenditure and the difference between contract and market rentals.</p> | <p>Market capitalisation rate – rental income</p> | <p>4.50% to 6.75%</p>                  | <p>5.50% to 6.50%</p>                  |
| <p><b>Direct sales comparison</b></p> <p>A valuation technique whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.</p>  | <p>Industrial land sales per sqm</p>              | <p>\$190 to \$530 per sqm</p>          | <p>\$190 to \$550 per sqm</p>          |

**15 Investment properties (continued)**

The following table shows the impact on the fair value due to a significant change unobservable input:

|   |   | Fair value measurement sensitivity to significant: |                   |
|---|---|--|-------------------|
|   |   | Increase in input                                  | Decrease in input |
| <b>Unobservable inputs within direct sales comparison valuation technique</b> |   |  |                   |
| Rate per sqm  | The rate per square metre of recently sold properties of a similar nature   | Increase   | Decrease          |
| <b>Unobservable inputs within the market capitalisation approach</b>          |   |  |                   |
| Gross market rent or licence fee  | The annual amount for which a tenancy within a property is expected to achieve under a new arm's length leasing transaction, including a fair share of property operating expenses. | Increase   | Decrease          |
| Market capitalisation rate  | The rate of return, determined through analysis of comparable, market-related sales transactions, which is applied to a property's sustainable net income to derive value.          | Decrease   | Increase          |



## **16 Property, plant and equipment (continued)**

Property, plant and equipment additions include finance costs capitalised of \$2,554,461 (2017: \$1,229,329). The average effective interest rate used is 3.1 % (2017: 3.2%).

There were no assets reclassified to non-current assets held for sale in the year (2017: \$nil).

Reclassification / transfers in the current financial year of \$4,918,000 represent a net transfer to pavement and other operation assets from investment properties.

### **Valuations of land, buildings and wharves**

At the end of each reporting period the POAL makes an assessment of whether the carrying amounts differ materially from fair value and whether a revaluation is required. For the year ended 30 June 2018, all land was revalued as at 30 June 2018 in accordance with financial reporting and the New Zealand Institute of Valuers asset valuation standards. The valuation of land was undertaken by NAI Harcourt, registered valuers.

The valuations of the independent valuers are reviewed by POAL and adopted as the carrying value in the financial statements subject to any specific adjustments required. POAL verifies all major inputs to the valuation, assesses valuation movements when compared to the prior year and holds discussions with the independent valuers as part of the process.

This valuation approach has been undertaken in order to provide an independent assessment of the current value of the assets.

The Group's land, buildings and wharves are all categorised as Level 3 in the fair value hierarchy. During the financial year there were no transfers between the levels of the fair value hierarchy.

### **Land valuation**

Freehold land is the land used as part of the core port operations (Port Operations Land) or is required to be held for other operational purposes (Other Operations Land).

Port Operations Land has been valued using the income approach by way of a discounted cash flow model as the primary basis. Other Operations Land is valued with a combination of the market approach using a comparable sales model and the income approach using a capitalised market income model.

The following table summarises the valuation approach and key assumptions used by the valuers to arrive at fair value for Port Operations Land:

**16 Property, plant and equipment (continued)**

|  |  | 2018  | 2017  |
|--|--|---|---|
| Asset valuation technique  | Inputs used to measure fair value  | Range of significant unobserved inputs              | Range of significant unobserved inputs  |
| <b>Discounted cash flow model</b><br>Given the size and location of the land, the discounted cash flows are based on the assumption that the land will be developed and sold in allotments of 2,300 sqm over a 30 year period. | Land Sales price<br><br>The rate is based on site intensity and height being lower than that in the CBD because of the zoning of the port precinct | \$5,075 per sqm, for a 2,300 sqm allotment          | \$4,875 per sqm, for a 2,300 sqm allotment  |
|  | Site development costs have been estimated based on work undertaken by Beca Group, Engineering Consultants.  | Beca Group development costs updated for 2018 rates | Beca Group historic data for development costs as adjusted for cost escalation based on "Producers Price Index – Construction Sector" |
|  | Discount rate  | 12.85%  | 12.75%  |
|  | Sales price escalation   | Range 1.00% to 3.50% over the term                  | Range 2.00% to 5.00% over the term  |
|  | Cost escalation  | Range 2.55% to 3.00% over the term                  | Range 2.55% to 3.00% over the term  |

The sensitivity table below is related to the valuation of the Port Operations Land – Discounted Cash Flow Valuation and shows the impact of changes in the discount rate and the land sales price on the valuation.

| Discount rate change | Change in Land Sales Price |          |         |        |        |
|----------------------|----------------------------|----------|---------|--------|--------|
|                      | -10.00%                    | -5.00%   | 0.00%   | 5.00%  | 10.00% |
| 12.80%               | (42,705)                   | (20,347) | 2,011   | 20,085 | 46,728 |
| 12.85%               | (44,511)                   | (22,256) | -       | 18,023 | 44,511 |
| 12.90%               | (46,305)                   | (24,151) | (1,997) | 15,976 | 42,311 |

## 16 Property, plant and equipment (continued)

The following table summarises the valuation techniques and key assumptions used by the valuers to arrive at fair value for significant Other Operations Land:

|                                 |                                   | 2018                                   | 2017                                   |
|---------------------------------|-----------------------------------|--|--|
| Asset valuation technique       | Inputs used to measure fair value | Range of significant unobserved inputs | Range of significant unobserved inputs |
| Comparable sales model          | Land sales price                  | \$3,000 per sqm to \$6,000 per sqm     | \$2,900 per sqm to \$4,500 per sqm     |
| Capitalised market income model | Market capitalisation rate        | 6.25% to 7.25%                         | 6.25% to 8.75%                         |

### Port Operations wharves and freehold buildings valuation

Port operations wharves and buildings are valued at least every three years and were revalued at 30 June 2018 by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors, to fair value.

The fair value for the wharves, buildings, structures, civil works and support assets was derived using the Depreciated Replacement Cost (DRC) methodology. The calculation of fair value has been prepared using straight line depreciation.

In preparing the financial values for wharves, buildings, structures, civil works and support assets, the valuers have researched estimated Gross Current Replacement Costs (GCRC), these are required in order to calculate the depreciation amounts to arrive at the Depreciated Replacement costs (DRC).

The following table summarises the valuation technique and key assumptions used by the valuers to arrive at fair value:

|                           |  | 2018                                   |
|---------------------------|--|--|
| Asset valuation technique | Inputs used to measure fair value                | Range of significant unobserved inputs |
|                           | Wharves economic life                            | 100 years                              |
|                           | Wharf buildings economic life                    | 50 years                               |
|                           | Residual value at the end of economic life       | 15%                                    |
|                           | Depreciation                                     | straight line                          |
|                           | Piles unit cost of construction per sqm          | \$999- \$2,045                         |
|                           | Wharf Platform unit cost of construction per sqm | \$1,575 - \$3,238                      |
|                           | Fenders unit cost of construction per sqm        | \$82 - \$170                           |
|                           | Services unit cost of construction per sqm       | \$112 - \$227                          |
|                           | Total unit cost of construction per sqm          | \$2,767 - \$5,680                      |

**16 Property, plant and equipment (continued)**

The following table shows the impact on the fair value due to a significant change unobservable input for Land, Buildings and Wharves:

|                                   |  | <b>Fair value measurement sensitivity to significant:</b> |                          |
|-----------------------------------|--|---|--------------------------|
| <b>Land</b>                       |  | <b>Increase in input</b>                                  | <b>Decrease in input</b> |
| Land sales price                  | The rate per square metre of recently sold properties of a similar nature  | Increase  | Decrease                 |
| Discount rate                     | The rate, determined through analysis of comparable market-related sales transactions, which is applied to a property's future net cash flows to convert those cash flows into a present value.  | Decrease  | Increase                 |
| Sale price escalation             | The annual escalation rate applied to property sales prices over an assumed holding period.  | Increase  | Decrease                 |
| Site development costs escalation | The annual escalation rate applied to site development costs over an assumed holding period.   | Decrease  | Increase                 |
| Market capitalisation rate        | The rate used to calculate market value from the property's deemed annual market rental.   | Decrease  | Increase                 |
| <b>Building and wharves</b>       |  | <b>Increase in input</b>                                  | <b>Decrease in input</b> |
| Unit cost of construction         | The costs of constructing various asset types based on a variety of sources including recent local competitive tendered construction works, published cost information, the valuer's database of costing information and experience of typical industry rates and indexed historical cost information. | Increase  | Decrease                 |

## 17 Intangible assets

|                            | 1 July 2017    |   |                              | Current year movements                 |                        |  | 30 June 2018   |   |                              |
|----------------------------|----------------|---|------------------------------|--|------------------------|--|----------------|---|------------------------------|
|                            | Cost<br>\$'000 | Accumulated<br>amortisation<br>and<br>impairment<br>charges<br>\$'000 | Carrying<br>amount<br>\$'000 | Current<br>year<br>additions<br>\$'000 | Acquisitions<br>\$'000 | Current year<br>amortisation<br>\$'000 | Cost<br>\$'000 | Accumulated<br>amortisation<br>and<br>impairment<br>charges<br>\$'000 | Carrying<br>amount<br>\$'000 |
| <b>Operating assets</b>    |                |   |                              |  |                        |  |                |   |                              |
| <i>At cost</i>             |                |   |                              |  |                        |  |                |   |                              |
| Computer software          | 36,335         | (12,398)  | 23,937                       | 23,826                                 | -                      | (3,470)                                | 60,161         | (15,868)  | 44,293                       |
| Total intangible<br>assets | 36,335         | (12,398)  | 23,937                       | 23,826                                 | -                      | (3,470)                                | 60,161         | (15,868)  | 44,293                       |

|                            | 1 July 2016    |   |                              | Prior year movements              |                        |                                      | 30 June 2017   |   |                              |
|----------------------------|----------------|---|------------------------------|-----------------------------------|------------------------|--------------------------------------|----------------|---|------------------------------|
|                            | Cost<br>\$'000 | Accumulated<br>amortisation<br>and<br>impairment<br>charges<br>\$'000 | Carrying<br>amount<br>\$'000 | Prior year<br>additions<br>\$'000 | Acquisitions<br>\$'000 | Prior year<br>amortisation<br>\$'000 | Cost<br>\$'000 | Accumulated<br>amortisation<br>and<br>impairment<br>charges<br>\$'000 | Carrying<br>amount<br>\$'000 |
| <b>Operating assets</b>    |                |   |                              |                                   |                        |                                      |                |   |                              |
| <i>At cost</i>             |                |   |                              |                                   |                        |                                      |                |   |                              |
| Computer software          | 28,292         | (9,298)   | 18,994                       | 7,121                             | 922                    | (3,100)                              | 36,335         | (12,398)  | 23,937                       |
| Total intangible<br>assets | 28,292         | (9,298)   | 18,994                       | 7,121                             | 922                    | (3,100)                              | 36,335         | (12,398)  | 23,937                       |

## 18 Equity accounted investments

|                               | 2018<br>\$'000   | 2017<br>\$'000   |
|-------------------------------|------------------|------------------|
| Investments in associates     | 1,435,931        | 1,084,260        |
| Investments in joint ventures | 341              | 293              |
|                               | <b>1,436,272</b> | <b>1,084,553</b> |

### (a) Investments in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

| Name of company                        | Principal activity                         | Interest held by the consolidated group |           |
|--|--|---|-----------|
|  |  | 2018<br>%                               | 2017<br>% |
| Auckland International Airport Limited | Airport infrastructure                     | 22                                      | 22        |
| Longburn Intermodal Freight Hub Ltd    | Container terminal operator - marine cargo | 33                                      | 33        |

The above associates are incorporated in New Zealand and have balance dates of 30 June.

### 18 Equity accounted investments (continued)

The fair value of the investment in AIAL as at 30 June 2018 is \$1,806 million (2017: \$1,899 million). This is determined based on the number of shares held by the Group (266,369,827) and the NZX quoted market price of \$6.78 (2017: \$7.13).

*Movements in carrying amounts*

|                                   | <b>2018</b>             | <b>2017</b>             |
|-----------------------------------|-------------------------|-------------------------|
|                                   | <b>\$'000</b>           | <b>\$'000</b>           |
| Balance at beginning of the year  | <b>1,084,260</b>        | 1,055,722               |
| Share of surplus after income tax | <b>143,937</b>          | 73,980                  |
| Dividends received                | <b>(56,595)</b>         | (50,602)                |
| Share of movement in reserves     | <b>264,329</b>          | 5,160                   |
| Balance at 30 June 2018           | <b><u>1,435,931</u></b> | <b><u>1,084,260</u></b> |

**(b) Investments in joint ventures**

| <b>Name of company</b> | <b>Interest held by the consolidated group</b> |             |
|------------------------|--|-------------|
|                        | <b>2018</b>                                    | <b>2017</b> |
|                        | <b>%</b>                                       | <b>%</b>    |
| North Tugz Limited     | <b>50</b>                                      | 50          |
| PortConnect Limited    | <b>50</b>                                      | 50          |

The above joint ventures have balance dates of 30 June.

The entities are not controlled entities due to the provisions of a shareholder agreement.

*Movements in carrying amounts*

|                                   | <b>2018</b>       | <b>2017</b>       |
|-----------------------------------|-------------------|-------------------|
|                                   | <b>\$'000</b>     | <b>\$'000</b>     |
| Balance at beginning of the year  | <b>293</b>        | 2,581             |
| Share of surplus after income tax | <b>2,418</b>      | (112)             |
| Dividends received                | <b>(2,370)</b>    | (2,326)           |
| Impairment                        | <b>-</b>          | 150               |
| Balance at end of year            | <b><u>341</u></b> | <b><u>293</u></b> |

## 18 Equity accounted investments (continued)

|   | Aggregate balance |                  | Group's portion  |                  |
|---|-------------------|------------------|------------------|------------------|
|   | 2018<br>\$'000    | 2017<br>\$'000   | 2018<br>\$'000   | 2017             |
| <b>(c) Share of joint venture's and associate's assets and liabilities</b>        |                   |                  |                  |                  |
| Current assets  | 182,973           | 108,182          | 41,802           | 25,356           |
| Non-current assets  | <u>8,049,679</u>  | <u>6,431,772</u> | <u>1,791,715</u> | <u>1,447,704</u> |
| <b>Total assets</b>   | <u>8,232,652</u>  | <u>6,539,954</u> | <u>1,833,517</u> | <u>1,473,060</u> |
| Current liabilities   | 332,283           | 569,536          | 74,487           | 129,073          |
| Non-current liabilities   | <u>2,203,737</u>  | <u>1,923,875</u> | <u>493,179</u>   | <u>433,928</u>   |
| <b>Total liabilities</b>  | <u>2,536,020</u>  | <u>2,493,411</u> | <u>567,666</u>   | <u>563,001</u>   |
| Net assets  | <u>5,696,632</u>  | <u>4,046,543</u> | <u>1,265,851</u> | <u>910,059</u>   |
|   |                   |                  |                  |                  |
|   | Aggregate balance |                  | Group's portion  |                  |
|   | 2018<br>\$'000    | 2017<br>\$'000   | 2018<br>\$'000   | 2017<br>\$'000   |
| <b>(d) Share of joint venture's and associate's revenue, expenses and results</b> |                   |                  |                  |                  |
| Revenues  | 995,767           | 643,143          | 224,591          | 147,696          |
| Expenses  | <u>(185,258)</u>  | <u>(202,363)</u> | <u>(43,752)</u>  | <u>(43,752)</u>  |
| Profit before income tax  | <u>810,509</u>    | <u>440,780</u>   | <u>180,839</u>   | <u>99,868</u>    |

### (e) Share of joint ventures' and associates' contingencies

#### *Noise insulation*

In December 2001, the Environment Court ratified an agreement that had been reached between Manukau City Council, the company and other interested parties on the location and future operation of a second runway to the north and parallel to the existing runway.

The Environment Court determination includes a number of conditions which apply to the operation of the airport. These conditions include obligations on the company to mitigate the impacts of aircraft noise on the local community. The obligations include the company offering acoustic treatment packages to schools and existing homes within defined areas.

Noise levels are monitored continually, and, as the noise impact area increases, offers will need to be made. The obligation does not extend to new houses. Overall, it is estimated that approximately 4,000 homes will eventually be offered assistance.

As it is not possible to accurately predict the rate of change in aircraft noise levels over time, nor the rate of acceptance of offers of treatment to homeowners, the company cannot accurately predict the overall cost or timing of acoustic treatment. It is estimated that, overall, further costs would not exceed \$9,000,000.

### (f) Share of associates' and joint ventures' capital commitments

Capital commitments as at 30 June 2018 are \$88,000 (2017: \$nil).

## 19 Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b).

All subsidiaries are incorporated in New Zealand.

All subsidiaries have a balance date of 30 June.

## 19 Investments in subsidiaries (continued)

| Name of entity                | Principal activity         | Equity holding |           |
|-------------------------------|----------------------------|----------------|-----------|
|                               |                            | 2018<br>%      | 2017<br>% |
| Auckland Film Studios Limited | Film Studio                | -              | 100       |
| Ports of Auckland Limited     | Port Operator              | 100            | 100       |
| Bunker Shipz Limited          | Management Services        | 100            | 100       |
| Seafuels Limited              | Port Operator              | 100            | 100       |
| Waikato Freight Hub Limited   | Non-trading                | 100            | 100       |
| Conlinxx Limited              | Freight Handling Services  | 100            | 100       |
| Nexus Logistics Limited       | Logistics and Distribution | 100            | 100       |

### Subsidiary disposal

On 2 October 2017 the shares in AFSL were transferred to Auckland Council for consideration of \$22.9 million, being the carrying amount of AFSL's net assets as at 25 September 2017. AFSL's results for the period 1 July to 1 October 2017 are included in the Group's consolidated accounts (being a profit of \$20,736). On 2 October AFSL's was deconsolidated at the carrying value of the net assets and no gain or loss was recognised. See note 29 for details of special dividends paid.

## 20 Available-for-sale financial assets

|  | 2018<br>\$'000    | 2017<br>\$'000    |
|--|-------------------|-------------------|
| Balance at beginning of the year                   | 35,752            | 25,232            |
| (Loss)/gain on revaluation recognised (note 28(a)) | <u>7,397</u>      | <u>10,520</u>     |
| At end of year                                     | <u>43,149</u>     | <u>35,752</u>     |
| <br>Listed securities                              | <br><u>43,149</u> | <br><u>35,752</u> |

All available-for-sale financial assets are denominated in New Zealand currency. For an analysis of the sensitivity of available-for-sale financial assets to price and interest rate risk refer to note 31.

The fair value of these securities is based on quoted market prices. Fair value changes in the investment are recognised in other comprehensive income.

Listed securities represent an investment holding of 19.9% in Marsden Maritime that offer the Group the opportunity for return through dividend income and fair value gains.

## 21 Payables

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Current</b>                           |                |                |
| Trade payables                           | 18,865         | 14,259         |
| Accrued expenses                         | 13,587         | 12,004         |
| Amounts due to related parties (note 35) | 8,653          | 6,306          |
| Revenue in advance                       | <u>1,002</u>   | <u>22</u>      |
| <b>Total current payables</b>            | <u>42,107</u>  | <u>32,591</u>  |

**21 Payables (continued)**

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| <b>Non-current</b>                |               |               |
| Revenue in advance                | <u>579</u>    | <u>601</u>    |
| <b>Total non-current payables</b> | <u>579</u>    | <u>601</u>    |
| <br>                              |               |               |
| <b>Total payables</b>             | <u>42,686</u> | <u>33,192</u> |

The carrying value of payables approximates their fair value.

**22 Employee entitlements**

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Current portion</b>                         |                |                |
| Annual leave                                   | 7,452          | 6,027          |
| Accrued salaries and wages                     | 2,937          | 2,612          |
| Long service leave                             | <u>405</u>     | <u>419</u>     |
| <b>Total current employee entitlements</b>     | <u>10,794</u>  | <u>9,058</u>   |
| <br>   |                |                |
| <b>Non-current</b>                             |                |                |
| Long service leave                             | <u>1,033</u>   | 1,053          |
| <b>Total non-current employee entitlements</b> | <u>1,033</u>   | <u>1,053</u>   |
| <br>   |                |                |
| <b>Total employee entitlements</b>             | <u>11,827</u>  | <u>10,111</u>  |

## 23 Borrowings

|                              | 2018<br>\$'000 | 2017<br>\$'000    |
|------------------------------|----------------|-------------------|
| <b>Current</b>               |                |                   |
| Bank overdrafts              | 7,594          | 6,202             |
| <b>Non-current portion</b>   |                |                   |
| <b>Unsecured borrowings</b>  |                |                   |
| Other bank loans             | 207,885        | 291,713           |
| Fixed rate notes             | <u>169,469</u> | <u>          </u> |
| Total non-current borrowings | <u>377,354</u> | <u>291,713</u>    |
| <b>Total borrowings</b>      | <u>384,948</u> | <u>297,915</u>    |

### (a) Bank overdraft

The bank overdraft facility limit and maximum amount of credit made available to the Group is \$10,050,000, which is primarily used for short term working capital requirements.

### (b) Other bank loans

A revolving advances facility agreement was signed on 27 July 2015 by POAL. Bilateral revolving advance facility agreements were signed with Westpac New Zealand Limited, ANZ Bank New Zealand Limited, Commonwealth Bank of Australia and Bank of Tokyo Mitsubishi UFJ, Ltd. The duration period of the revolving advances facility at commencement ranged from two to five years.

The revolving advances facility is subject to a negative pledge deed dated 29 October 2013. This deed is entered into in substitution and replacement of an existing negative pledge deed dated 17 July 1995 (as varied and restated by a deed dated 19 December 2005 and as varied by deeds dated 18 May 2007, 24 November 2009 and 29 October 2013). The deed is for the benefit of Westpac New Zealand Limited, ANZ Bank New Zealand Limited, Commonwealth Bank of Australia and Bank of Tokyo Mitsubishi UFJ, Ltd and Bank of New Zealand.

The current and non-current borrowings are unsecured. POAL borrows under a negative pledge arrangement which requires certain certificates and covenants. The negative pledge deed sets out a minimum interest cover requirement (1.5:1) and a maximum gearing ratio percentage requirement (65%) (refer to note 31). There have been no breaches of this negative pledge during the financial year.

The interest rate is based on BKBM (bank bill bid settlement) rate plus a margin range of 0.65% to 0.91% per annum (2017: 0.55% to 0.77% per annum). The Group generally borrows funds on a 90 days term (2017: 90 days term).

### (c) Fixed rate notes

On the 21st June 2018, POAL, received long term funding in the form of unsecured notes, via three fixed rate tranches with terms of 10, 12 and 15 years, and final maturities in 2028, 2030, and 2033 respectively. Each tranche is shared evenly between two investors, Metlife Investments and Pricoa Capital Group. Interest is paid semi-annually. The fixed rate notes are subject to the same negative pledge deed as the other bank loans outlined above.

### Fair value

The carrying amounts of the bank overdraft and other bank loans approximate their fair values as all debt amounts are based on either floating interest rates or short term (90 days or less) fixed rates.

The fair value of the fixed rate notes is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments

### Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 31.

## 24 Derivative financial instruments

|   | 2018<br>\$'000   | 2017<br>\$'000    |
|---|------------------|-------------------|
| <b>Current asset portion</b>                                  |                  |                   |
| Forward foreign exchange contracts - cash flow hedges         | <u>3,726</u>     | <u>318</u>        |
| <b>Total current asset portion</b>                            | <u>3,726</u>     | <u>318</u>        |
| <b>Non-current assets</b>                                     |                  |                   |
| Forward foreign exchange contracts - cash flow hedges         | -                | 1,083             |
| Interest rate swaps - cash flow hedges                        | <u>-</u>         | <u>485</u>        |
| Total non-current derivative financial instrument assets      | <u>-</u>         | <u>1,568</u>      |
| <b>Total derivative financial instrument assets</b>           | <u>3,726</u>     | <u>1,886</u>      |
| <b>Current liabilities</b>                                    |                  |                   |
| Forward foreign exchange contracts - cash flow hedges         | (363)            | (5,135)           |
| Interest rate swaps - cash flow hedges                        | <u>(967)</u>     | <u>(190)</u>      |
| Total current derivative financial instrument liabilities     | <u>(1,330)</u>   | <u>(5,325)</u>    |
| <b>Non-current liabilities</b>                                |                  |                   |
| Forward foreign exchange contracts - cash flow hedges         | -                | -                 |
| Interest rate swaps - cash flow hedges                        | <u>(6,915)</u>   | <u>(8,118)</u>    |
| Total non-current derivative financial instrument liabilities | <u>(6,915)</u>   | <u>(8,118)</u>    |
| <b>Total derivative financial instrument liabilities</b>      | <u>(8,245)</u>   | <u>(13,443)</u>   |
| <br>Total net derivative financial instruments                | <br><u>4,519</u> | <br><u>11,557</u> |

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (note 31).

All derivatives are designated as hedging instruments.

Bank loans of POAL currently bear a weighted average variable interest rate of 2.81% (2017: 2.70%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, POAL has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 45% (2017: 55%) of the loan principal outstanding and are timed to expire as interest and loan repayments fall due. The fixed interest rates range between 2.85% and 5.79% (2017: 2.85% and 5.79%) and the maturity dates range between 21 June 2019 and 21 June 2026.

During the current financial year two new interest rate swap contracts were put in place with start dates 30 November 2017 and 21 December 2017. This equates to 13.9% of the total notional principal amount.

The contracts require settlement of net interest payable or receivable each quarter. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

As at 30 June 2018 the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

|                      | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------------|----------------|----------------|
| Less than 1 year     | 40,000         | 15,000         |
| 1 - 2 years          | 10,000         | 40,000         |
| 2 - 3 years          | 40,000         | 10,000         |
| 3 - 4 years          | 40,000         | 40,000         |
| 4 - 5 years          | -              | 40,000         |
| Greater than 5 years | <u>50,000</u>  | <u>40,000</u>  |
| Total                | <u>180,000</u> | <u>185,000</u> |

## 24 Derivative financial instruments (continued)

### (a) Forward exchange contracts - cash flow hedges

POAL is a party to forward exchange contracts in order to manage foreign exchange risk. POAL's risk management policy is to hedge purchases of major items of plant and equipment in foreign currencies only.

The cash flows are expected to occur at various dates between six months to one year from the balance date.

At 30 June 2018, the POAL had outstanding forward exchange contracts equivalent to \$53,250,720 (2017: \$97,125,468) for three quay cranes and intelligent terminals.

## 25 Deferred tax liabilities

|   | 2018<br>\$'000       | 2017<br>\$'000       |
|---|----------------------|----------------------|
| <b>The balance comprises temporary differences attributable to:</b> |                      |                      |
| Cashflow hedges   | (1,317)              | (3,291)              |
| Property, plant and equipment                                       | 68,440               | 64,409               |
| Investment property   | 1,473                | 1,967                |
| Intangible assets   | 2,832                | 2,754                |
| Provisions  | (4,707)              | (4,275)              |
| Deferred revenue  | <u>2,202</u>         | <u>2,228</u>         |
|   | <u><b>68,923</b></u> | <u><b>63,792</b></u> |

|   | Cashflow hedges<br>\$'000 | Property,<br>plant and equipment<br>\$'000 | Investment property<br>\$'000 | Intangible<br>assets<br>\$'000 | Deferred<br>Provisions<br>\$'000 | Deferred<br>revenue<br>\$'000 | Tax<br>losses<br>\$'000 | Total<br>\$'000 |
|---|---------------------------|--|-------------------------------|--------------------------------|----------------------------------|-------------------------------|-------------------------|-----------------|
| <b>As at 1 July 2017</b>  | (3,291)                   | 64,409                                     | 1,967                         | 2,754                          | (4,275)                          | 2,228                         | -                       | 63,792          |
| Acquisition/disposal of subsidiary  | -                         | -  | -                             | -                              | 460                              | -                             | -                       | 460             |
| Charged/(credited) to the statement<br>of comprehensive revenue and<br>expense    | -                         | 91   | (494)                         | 78                             | (892)                            | (26)                          | -                       | (1,243)         |
| (Credited)/charged to other<br>comprehensive revenue and expense<br>(notes 28(a)) | <u>1,974</u>              | <u>3,940</u>                               | <u>-</u>                      | <u>-</u>                       | <u>-</u>                         | <u>-</u>                      | <u>-</u>                | <u>5,914</u>    |
| <b>As at 30 June 2018</b>   | <u>(1,317)</u>            | <u>68,440</u>                              | <u>1,473</u>                  | <u>2,832</u>                   | <u>(4,707)</u>                   | <u>2,202</u>                  | <u>-</u>                | <u>68,923</u>   |
| <b>As at 1 July 2016</b>  | (4,280)                   | 65,671                                     | 616                           | 2,055                          | (3,310)                          | 2,256                         | -                       | 63,008          |
| Charged/(credited) to the statement<br>of comprehensive revenue and<br>expense    | -                         | (1,262)                                    | 1,351                         | 699                            | (965)                            | (28)                          | -                       | (205)           |
| (Credited)/charged to other<br>comprehensive revenue and expense<br>(notes 28(a)) | <u>989</u>                | <u>-</u>                                   | <u>-</u>                      | <u>-</u>                       | <u>-</u>                         | <u>-</u>                      | <u>-</u>                | <u>989</u>      |
| <b>As at 30 June 2017</b>   | <u>(3,291)</u>            | <u>64,409</u>                              | <u>1,967</u>                  | <u>2,754</u>                   | <u>(4,275)</u>                   | <u>2,228</u>                  | <u>-</u>                | <u>63,792</u>   |

## 26 Provisions

|                              | 2018<br>\$'000 | 2017<br>\$'000 |
|------------------------------|----------------|----------------|
| Employee benefits            | 155            | -              |
| ACC partnership programme    | 223            | 249            |
| Other provisions (note 2(v)) | 784            | 784            |
|                              | <u>1,162</u>   | <u>1,033</u>   |

### ACC partnership programme

POAL is a partner in the Accident Compensation Commission (ACC) Partnership Programme. Under the Partnership Programme the Group is liable for all its claim costs for a period of two years up to a specified maximum. At the end of the two year period, the Group pays a premium to ACC for the value of residual claims, the liability for on-going claims from that point passes back to ACC.

The liability for ACC Partnership Programme is recognised in provisions and measured as the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques.

#### *Liability valuation*

An independent actuarial valuer (AON New Zealand) has calculated the POAL's liability, as at 30 June 2018. The valuer has attested satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding liability.

The valuation carried out as at 30 June 2018 produced a value for the ACC reserve of \$222,500 (2017: \$248,900). Pre valuation date claim inflation has been taken as 50% (2017: 50%) of movements in the CPI and 50% (2017: 50%) of the movements in the Average Weekly Earnings (AWE) Index. Post valuation date claim inflation rates and the discount rates used to value the liabilities are based on Treasury issued future rates and risk free rates as at 31 January 2018.

POAL is not exposed to any significant concentrations of insurance risks as work related injuries are generally the result of an isolated event to an individual employee.

## 27 Contributed equity

|  | 2018<br>\$'000   | 2017<br>\$'000   |
|--|------------------|------------------|
| <b>(a) Share capital</b>                             |                  |                  |
| Ordinary shares                                      |                  |                  |
| Equity contributed by disestablished councils        | 319,315          | 319,315          |
| Equity contributed by disestablished CCOs            | 399,566          | 399,566          |
| Contribution of equity by way of debt capitalisation | 299,000          | 299,000          |
|  | <u>1,017,881</u> | <u>1,017,881</u> |

### (b) Ordinary shares

As at 30 June 2018 there were 1,001 ordinary shares (2017: 1,001) ordinary shares issued and fully paid.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share. Ordinary shares do not have a par value.

## 28 Reserves and accumulated funds

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>(a) Reserves</b>                                     |                |                |
| Property, plant and equipment revaluation reserve       | 193,566        | 163,761        |
| Hedging reserve - cash flow hedges                      | 4,376          | (692)          |
| Share of equity accounted investments reserves          | 721,763        | 457,434        |
| Available-for-sale investments reserve                  | <u>29,177</u>  | <u>21,780</u>  |
|   | <u>948,882</u> | <u>642,283</u> |
| <b>Asset revaluation reserve</b>                        |                |                |
| Balance at beginning of the year                        | 163,761        | 146,496        |
| Revaluation (note 16)                                   | 33,745         | 17,265         |
| Deferred tax (note 9)                                   | <u>(3,940)</u> | <u>-</u>       |
| Balance 30 June   | <u>193,566</u> | <u>163,761</u> |
| <b>Hedging reserve - cash flow hedges</b>               |                |                |
| Balance at beginning of the year                        | (692)          | (3,235)        |
| Fair value movements                                    | 3,223          | 260            |
| Transfer to surplus                                     | 3,819          | 3,272          |
| Deferred tax (note 9)                                   | <u>(1,974)</u> | <u>(989)</u>   |
| Balance at 30 June                                      | <u>4,376</u>   | <u>(692)</u>   |
| <b>Share of equity accounted investments reserves</b>   |                |                |
| Balance at beginning of the year                        | 457,434        | 452,274        |
| Share of associate's movement in reserves (note 18 (a)) | <u>264,329</u> | <u>5,160</u>   |
| Balance at 30 June                                      | <u>721,763</u> | <u>457,434</u> |
| <b>Available-for-sale investments reserve</b>           |                |                |
| Balance at beginning of the year                        | 21,780         | 11,260         |
| Revaluation - gross (note 20)                           | <u>7,397</u>   | <u>10,520</u>  |
| Balance at 30 June                                      | <u>29,177</u>  | <u>21,780</u>  |

### (b) Purpose of each reserve fund

#### (i) Property, plant and equipment revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment, as described in note 2(d).

#### (ii) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge. The amounts are recognised in the surplus/deficit when the associated hedged transactions affect surplus/deficit as described in note 2(j).

#### (iii) Share of equity accounted investments reserve

The share of equity accounted investments reserve records the Group's share of its associates and joint venture's cash flow hedge reserve, property, plant and equipment revaluation reserve, foreign currency translation reserve, share based payment reserve and its share of its associates and joint venture's reserves. The nature and purpose of these reserves for the associate or joint venture is consistent with the nature and purpose of the reserves for the Group.

Amounts transferred to the profit and loss component of the statement of comprehensive revenue and expense of the associate are included in the share of equity accounted investments surplus.

#### (iv) Available-for-sale investments reserve

The available-for-sale investments reserve is used to record the fair value changes on listed securities. The fair value movements are recognised in other comprehensive revenue and expense in the consolidated statement of comprehensive revenue and expense.

**Auckland Council Investments Limited**  
**Notes to the consolidated financial statements**  
**30 June 2018**  
(continued)

|   | <b>2018</b>           | 2017                  |
|---|-----------------------|-----------------------|
|   | <b>\$'000</b>         | \$'000                |
| <b>(c) Accumulated funds</b>                    |                       |                       |
| Balance at beginning of the year                | <b>150,779</b>        | 91,669                |
| Transfers of tax balances for nil consideration | <b>3,465</b>          | 6,756                 |
| Surplus for the year                            | <b>220,038</b>        | 138,212               |
| Dividends (note 29)                             | <b>(129,418)</b>      | <b>(85,858)</b>       |
| Balance at end of the year                      | <b><u>244,864</u></b> | <b><u>150,779</u></b> |

**29 Dividends**

|  | <b>2018</b>           | 2017                 |
|--|-----------------------|----------------------|
|  | <b>\$'000</b>         | \$'000               |
| A dividend of \$106,455,000 was paid on 30 June 2018 (2017: \$85,858,039 was paid on 30 June 2017) | <b>106,455</b>        | 85,858               |
| A special dividend of \$22,963,000 was paid on 2 October 2017 (2017: nil)                          | <b>22,963</b>         | -                    |
| Total dividends paid   | <b><u>129,418</u></b> | <b><u>85,858</u></b> |

The dividends are fully imputed.

**(a) Special dividend**

On 2 October 2017 the shares in AFSL were transferred to Auckland Council for consideration of \$22.9 million, being the carrying amount of AFSL's net assets as at 25 September 2017. Following the transfer of shares ACIL declared a special dividend for \$22.9 million, which is treated as being linked to the transfer of AFSL, as the two events are inter-related. See note 19.

### 30 Reconciliation of net surplus after tax to net cash inflow from operating activities

|  | 2018<br>\$'000        | 2017<br>\$'000        |
|--|-----------------------|-----------------------|
| <b>Surplus after tax</b>   | <b>220,038</b>        | 138,212               |
| <b>Add/(less) non-cash items:</b>  |                       |                       |
| Share of associate and joint venture's surplus                           | (146,355)             | (73,868)              |
| Dividends from associates and joint ventures                             | 56,595                | 50,602                |
| Depreciation and amortisation expense                                    | 22,918                | 23,831                |
| Impairment of non current assets held for sale                           | -                     | 2,184                 |
| Impairment of investment in joint ventures                               | -                     | 5,451                 |
| Deferred tax expense   | (1,243)               | (205)                 |
| Current tax expense  | 3,460                 | 6,340                 |
| Movement in fair value of wharves  | (1,876)               | -                     |
| Movement in fair value of investment property                            | (16,917)              | (16,744)              |
| Other  | (78)                  | (385)                 |
| <b>Add/(less) items classified as investing or financing activities:</b> |                       |                       |
| Net gain/ loss on disposal of non-current assets and other investments   | 1,824                 | (1,194)               |
| Movements in borrowings allocated to interest paid                       | (359)                 | (54)                  |
| Net capital items included in working capital movements                  | 9,354                 | (1,641)               |
| <b>Add/(less) movements in working capital:</b>                          |                       |                       |
| Receivables  | (3,327)               | (14,336)              |
| Inventories  | (1,014)               | 682                   |
| Payables   | 9,516                 | 2,215                 |
| Provisions   | 129                   | (43)                  |
| Tax payable  | (441)                 | 1,180                 |
| Employee benefits  | 1,736                 | 2,011                 |
| <b>Net cash inflow/(outflow) from operating activities</b>               | <b><u>153,960</u></b> | <b><u>124,238</u></b> |

### 31 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, liquidity risk and credit risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps and forward foreign exchange contracts to hedge certain risk exposures.

The Group's treasury management is carried out under policies approved by Auckland Council with the exception of POAL. The Auckland Council treasury management policy incorporates a liability management policy and an investment policy. The POAL Group's risk management is performed by its group management who evaluate and hedge certain financial risks including currency risk and interest rate risk under a Treasury Policy that is approved by POAL's Board of Directors. These policies do not allow any transactions that are speculative in nature to be entered into.

#### Carrying amount and fair value of financial assets and liabilities

|   |    | Carrying amount  |                  | Fair value       |                  |
|---|----|------------------|------------------|------------------|------------------|
|   |    | 2018<br>\$'000   | 2017<br>\$'000   | 2018<br>\$'000   | 2017<br>\$'000   |
| <b>Financial assets</b>                   |    |                  |                  |                  |                  |
| Cash and cash equivalents                 | 11 | 1,317            | 8,013            | 1,317            | 8,013            |
| Receivables                               | 12 | 53,422           | 52,651           | 53,422           | 52,651           |
| Available-for-sale financial assets       | 20 | 43,149           | 35,752           | 43,149           | 35,752           |
| Derivative financial assets               | 24 | 3,726            | 1,886            | 3,726            | 1,886            |
| <b>Total financial assets</b>             |    | <b>101,614</b>   | <b>98,302</b>    | <b>101,614</b>   | <b>98,302</b>    |
| <b>Financial liabilities</b>              |    |                  |                  |                  |                  |
| Payables                                  | 21 | 41,105           | (32,569)         | 41,105           | (32,569)         |
| Employee entitlements                     | 22 | (11,827)         | (10,111)         | (11,827)         | (10,111)         |
| Borrowings                                | 23 | (384,948)        | (297,915)        | (384,948)        | (297,915)        |
| Derivative financial liabilities          | 24 | (8,245)          | (13,443)         | (8,245)          | (13,443)         |
| <b>Total financial liabilities</b>        |    | <b>(363,915)</b> | <b>(354,038)</b> | <b>(363,915)</b> | <b>(354,038)</b> |
| <b>Net financial assets (liabilities)</b> |    | <b>(262,301)</b> | <b>(255,736)</b> | <b>(262,301)</b> | <b>(255,736)</b> |

#### (a) Market risk

##### (i) Foreign exchange risk

Currency risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency, New Zealand dollars (NZD).

The POAL Group does not have any material exposure to currency risk except for the one-off purchases of assets (e.g. plant and equipment) denominated in foreign currencies. The POAL Treasury Policy requires that the POAL Group enters into foreign exchange contracts for the purchase of major items of plant and equipment and that the full amount of the purchase must be hedged. Foreign exchange instruments approved under the Treasury Policy are forward exchange contracts and currency options.

Arrangements that meet the hedge accounting criteria are accounted for in accordance with the accounting policy set out in notes 2(c) and 2(j).

##### (ii) Price risk

The investment in AIAL is subject to price risk due to the annual testing for impairment as outlined in note 2(g).

The Group is also exposed to equity securities price risk because of the investments held in Marsden Maritime Holdings Limited (formerly Northland Port Corporation (NZ) Limited), classified on the statement of financial position as an available-for-sale financial asset. The investment represents an investment in listed market securities. The fair value of the securities is based on quoted market prices.

The Group is not exposed to commodity price risk.

### 31 Financial risk management (continued)

(iii) *Cash flow and interest rate risk*

Interest rate risk is the risk of loss to the Group arising from adverse fluctuation in interest rates.

The Group's main interest rate risk arises from long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

|   | 30 June 2018                     |                | 30 June 2017                     |                |
|---|----------------------------------|----------------|----------------------------------|----------------|
|   | Weighted average interest rate % | Balance \$'000 | Weighted average interest rate % | Balance \$'000 |
| <b>Movement in interest rate:</b>               |                                  |                |                                  |                |
| Bank overdrafts and bank loans                  | 2.8                              | 215,594        | 2.7                              | 298,202        |
| Interest-rate swaps (notional principal amount) | 4.2                              | 180,000        | 4.3                              | 185,000        |

Interest bearing loans are at floating interest rates and are repriced quarterly. Interest rate swaps are used to hedge the interest on these loans and are also repriced quarterly.

A summary of terms and conditions of the loans is in note 23.

(iv) *Summarised sensitivity analysis*

The tables below illustrate the potential surplus and deficit and equity (excluding accumulated funds) impact from reasonably possible market movements, with all other variables held constant, based on the Group's financial instrument exposures at the balance date.

A sensitivity of 1% in interest rates, and 10% movement in foreign exchange rates and equity prices have been applied respectively. These are considered reasonable given the current level of interest rates, foreign exchange rates and equity prices and the volatility observed both on a historical basis and market expectation for future movement.

### 31 Financial risk management (continued)

| 30 June 2018                        | Carrying amount<br>\$'000 | Interest rate risk |              |                |                | Foreign exchange risk |              |          |            | Other price risk |                |              |  |
|-------------------------------------|---------------------------|--------------------|--------------|----------------|----------------|-----------------------|--------------|----------|------------|------------------|----------------|--------------|--|
|                                     |                           | -1%                |              | +1%            |                | -10%                  |              | +10%     |            | -5%              |                | +5%          |  |
|                                     | Surplus                   | Equity             | Surplus      | Equity         | Surplus        | Equity                | Surplus      | Equity   | Surplus    | Equity           | Surplus        | Equity       |  |
|                                     | \$'000                    | \$'000             | \$'000       | \$'000         | \$'000         | \$'000                | \$'000       | \$'000   | \$'000     | \$'000           | \$'000         | \$'000       |  |
| <b>Financial assets</b>             |                           |                    |              |                |                |                       |              |          |            |                  |                |              |  |
| Cash and cash equivalents           | 1,317                     | (13)               | -            | 13             | -              | -                     | -            | -        | -          | -                | -              | -            |  |
| Receivables                         | 53,422                    | -                  | -            | -              | -              | -                     | -            | -        | -          | -                | -              | -            |  |
| Available-for-sale financial assets | 43,149                    | -                  | -            | -              | -              | -                     | -            | -        | -          | (2,157)          | -              | 2,157        |  |
| Derivatives - cash flow hedges      | 3,726                     | -                  | -            | -              | -              | (408)                 | -            | 416      | -          | -                | -              | -            |  |
| <b>Financial liabilities</b>        |                           |                    |              |                |                |                       |              |          |            |                  |                |              |  |
| Payables                            | 41,105                    | -                  | -            | -              | -              | -                     | -            | -        | -          | -                | -              | -            |  |
| Employee entitlements               | 11,827                    | -                  | -            | -              | -              | -                     | -            | -        | -          | -                | -              | -            |  |
| Borrowings                          | 384,948                   | 2,156              | -            | (2,156)        | -              | -                     | -            | -        | -          | -                | -              | -            |  |
| Derivatives - cash flow hedges      | 8,245                     | 1,700              | 5,307        | (1,700)        | (5,641)        | -                     | -            | -        | -          | -                | -              | -            |  |
| <b>Total increase/ (decrease)</b>   |                           | <b>3,843</b>       | <b>5,307</b> | <b>(3,843)</b> | <b>(5,641)</b> | <b>-</b>              | <b>(408)</b> | <b>-</b> | <b>416</b> | <b>-</b>         | <b>(2,157)</b> | <b>2,157</b> |  |

| 30 June 2017                        | Carrying amount<br>\$'000 | Interest rate risk |              |                |                | Foreign exchange risk |              |          |                | Other price risk |                |              |  |
|-------------------------------------|---------------------------|--------------------|--------------|----------------|----------------|-----------------------|--------------|----------|----------------|------------------|----------------|--------------|--|
|                                     |                           | -1%                |              | +1%            |                | -10%                  |              | +10%     |                | -10%             |                | +10%         |  |
|                                     | Surplus                   | Equity             | Surplus      | Equity         | Surplus        | Equity                | Surplus      | Equity   | Surplus        | Equity           | Surplus        | Equity       |  |
|                                     | \$'000                    | \$'000             | \$'000       | \$'000         | \$'000         | \$'000                | \$'000       | \$'000   | \$'000         | \$'000           | \$'000         | \$'000       |  |
| <b>Financial assets</b>             |                           |                    |              |                |                |                       |              |          |                |                  |                |              |  |
| Cash and cash equivalents           | 8,013                     | (78)               | (70)         | 78             | 70             | -                     | -            | -        | -              | -                | -              | -            |  |
| Receivables                         | 52,651                    | -                  | -            | -              | -              | -                     | -            | -        | -              | -                | -              | -            |  |
| Available-for-sale financial assets | 35,752                    | -                  | -            | -              | -              | -                     | -            | -        | -              | (1,788)          | -              | 1,788        |  |
| Derivatives - cash flow hedges      | 1,886                     | 150                | 1,028        | (150)          | (1,134)        | -                     | 4,660        | -        | (4,570)        | -                | -              | -            |  |
| <b>Financial liabilities</b>        |                           |                    |              |                |                |                       |              |          |                |                  |                |              |  |
| Payables                            | 32,569                    | -                  | -            | -              | -              | -                     | -            | -        | -              | -                | -              | -            |  |
| Employee entitlements               | 10,111                    | -                  | -            | -              | -              | -                     | -            | -        | -              | -                | -              | -            |  |
| Borrowings                          | 297,915                   | 2,982              | -            | (2,982)        | -              | -                     | -            | -        | -              | -                | -              | -            |  |
| Derivatives - cash flow hedges      | 13,443                    | 1,450              | 5,015        | (1,450)        | (5,325)        | -                     | 4,530        | -        | (4,540)        | -                | -              | -            |  |
| <b>Total increase/ (decrease)</b>   |                           | <b>4,504</b>       | <b>5,973</b> | <b>(4,504)</b> | <b>(6,389)</b> | <b>-</b>              | <b>9,190</b> | <b>-</b> | <b>(9,110)</b> | <b>-</b>         | <b>(1,788)</b> | <b>1,788</b> |  |

#### (b) Credit risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty on its contractual obligations.

Financial instruments which potentially subject the Group to credit risk, principally consists of bank balances, trade and other receivables, advance to subsidiaries and equity accounted investees and derivative financial instruments.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to trade receivables transactions. For banks and financial institutions only parties with an appropriate international credit rating are accepted. Limits are placed on the exposure to any one financial institution and the usage of these limits is determined by assigning product weightings to the principal amount of the transaction. The POAL Group minimises its credit risk by spreading such exposures across a number of counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The POAL Group has policies in place that limit the amount of credit exposure to any one financial institution.

### 31 Financial risk management (continued)

The POAL Group's credit risk is also attributable to trade receivables which comprise of a large number of customers, spread across diverse industries. The POAL Group has a policy that manages exposure to credit risk by way of requiring customers who wish to trade on credit terms being subject to a credit assessment, which may include a review of their financial strengths, previous credit history with the POAL Group, payment habits with other suppliers, bank references and credit rating agency reports.

Approximately 66% (2017: 60%) of trade receivables at balance date is reflected by the Group's ten largest customers. At balance date approximately 21% (2017: 13%) of the trade receivables related to one customer. The Group is satisfied with the credit quality of the customer and does not anticipate any non-performance.

#### (c) Liquidity risk

Liquidity risk is the risk that the POAL Group will be unable to meet obligations as they fall due. The POAL Group manages the risk by targeting a minimum liquidity level by monitoring continuously forecasting actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### Contractual maturity analysis of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the period remaining at balance date until the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

|  | Less than<br>3 months | 3 - 12<br>months | Between<br>1 and 2<br>years | Between<br>2 and 5<br>years | Over 5<br>years | Total<br>contractual<br>cash flows | Carrying<br>Amount<br>Liabilities |
|--|-----------------------|------------------|-----------------------------|-----------------------------|-----------------|------------------------------------|-----------------------------------|
|  | \$'000                | \$'000           | \$'000                      | \$'000                      | \$'000          | \$'000                             | \$'000                            |
| <b>2018</b>                                |                       |                  |                             |                             |                 |                                    |                                   |
| <b>Non-derivatives</b>                     |                       |                  |                             |                             |                 |                                    |                                   |
| Payables                                   | 41,105                | -                | -                           | -                           | -               | 41,105                             | 41,105                            |
| Borrowings *                               | 15,128                | 7,174            | 67,816                      | 181,897                     | 233,419         | 505,434                            | 384,948                           |
| Employee entitlements                      | 11,827                | -                | -                           | -                           | -               | 11,827                             | 11,827                            |
| <b>Total non-derivative liabilities</b>    | <b>68,060</b>         | <b>7,174</b>     | <b>67,816</b>               | <b>181,897</b>              | <b>233,419</b>  | <b>558,366</b>                     | <b>437,880</b>                    |
| <b>Derivative</b>                          |                       |                  |                             |                             |                 |                                    |                                   |
| Net settled (interest rate swaps)          | 1,820                 | 1,752            | 2,645                       | 2,186                       | (322)           | 8,081                              | 7,882                             |
| Gross settled (forward exchange contracts) |                       |                  |                             |                             |                 |                                    |                                   |
| - (inflow)                                 | (15,125)              | -                | -                           | -                           | -               | (15,125)                           | 363                               |
| - outflow                                  | 15,489                | -                | -                           | -                           | -               | 15,489                             | -                                 |
| <b>Total derivative liabilities</b>        | <b>2,184</b>          | <b>1,752</b>     | <b>2,645</b>                | <b>2,186</b>                | <b>(322)</b>    | <b>8,445</b>                       | <b>8,245</b>                      |

### 31 Financial risk management (continued)

|  | Less than<br>3 months<br>\$'000 | 3 - 12<br>months<br>\$'000 | Between<br>1 and 2<br>years<br>\$'000 | Between<br>2 and 5<br>years<br>\$'000 | Over 5<br>years<br>\$'000 | Total<br>contractual<br>cash flows<br>\$'000 | Carrying<br>Amount<br>Liabilities<br>\$'000 |
|--|---------------------------------|----------------------------|---------------------------------------|---------------------------------------|---------------------------|--|---|
| <b>2017</b>                                |                                 |                            |                                       |                                       |                           |  |   |
| <b>Non-derivatives</b>                     |                                 |                            |                                       |                                       |                           |  |   |
| Payables                                   | 32,569                          | -                          | -                                     | -                                     | -                         | 32,569                                       | 32,569                                      |
| Borrowings *                               | 6,202                           | 8,050                      | 125,944                               | 173,957                               | -                         | 314,153                                      | 297,915                                     |
| Employee entitlements                      | 10,111                          | -                          | -                                     | -                                     | -                         | 10,111                                       | 10,111                                      |
| <b>Total non-derivative liabilities</b>    | <b>48,882</b>                   | <b>8,050</b>               | <b>125,944</b>                        | <b>173,957</b>                        | <b>-</b>                  | <b>356,833</b>                               | <b>340,595</b>                              |
| <b>Derivative</b>                          |                                 |                            |                                       |                                       |                           |  |   |
| Net settled (interest rate swaps)          | -                               | 3,423                      | 2,725                                 | 2,620                                 | (172)                     | 8,596  | 8,308                                       |
| Gross settled (forward exchange contracts) |                                 |                            |                                       |                                       |                           |  |   |
| - (inflow)                                 | -                               | (46,140)                   | -                                     | -                                     | -                         | (46,140)                                     | 5,135                                       |
| - outflow                                  | -                               | 51,304                     | -                                     | -                                     | -                         | 51,304                                       | -   |
| <b>Total derivative liabilities</b>        | <b>-</b>                        | <b>8,587</b>               | <b>2,725</b>                          | <b>2,620</b>                          | <b>(172)</b>              | <b>13,760</b>                                | <b>13,443</b>                               |

\* For floating rate instruments the amounts disclosed are determined by reference to the interest rate at the last repricing date.

#### (d) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June.

|                                     | Level 1       | Level 2      | Level 3  | Total balance |
|-------------------------------------|---------------|--------------|----------|---------------|
| <b>30 June 2018</b>                 |               |              |          |               |
| <b>Assets</b>                       |               |              |          |               |
| Available-for-sale financial assets | 43,149        | -            | -        | 43,149        |
| Derivatives used for hedging        | -             | 3,726        | -        | 3,726         |
| <b>Total assets</b>                 | <b>43,149</b> | <b>3,726</b> | <b>-</b> | <b>46,875</b> |
| <b>Liabilities</b>                  |               |              |          |               |
| Derivatives used for hedging        | -             | 8,245        | -        | 8,245         |
| <b>Total liabilities</b>            | <b>-</b>      | <b>8,245</b> | <b>-</b> | <b>8,245</b>  |

### 31 Financial risk management (continued)

|                                     | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total balance<br>\$'000 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------------|
| <b>30 June 2017</b>                 |                   |                   |                   |                         |
| <b>Assets</b>                       |                   |                   |                   |                         |
| Available-for-sale financial assets | 35,752            | -                 | -                 | 35,752                  |
| Derivatives used for hedging        | -                 | 1,886             | -                 | 1,886                   |
| <b>Total assets</b>                 | <u>35,752</u>     | <u>1,886</u>      | <u>-</u>          | <u>37,638</u>           |
| <b>Liabilities</b>                  |                   |                   |                   |                         |
| Derivatives used for hedging        | -                 | 13,443            | -                 | 13,443                  |
| <b>Total liabilities</b>            | <u>-</u>          | <u>13,443</u>     | <u>-</u>          | <u>13,443</u>           |

The fair value of financial instruments traded in active markets is based on quoted market prices at the year end. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise NZX equity investments classified as available for sale financial assets.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments; and
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

#### (e) Financial instrument categories

| <b>Assets</b>   | <b>Derivatives<br/>for hedging<br/>\$'000</b> | <b>Loans and<br/>receivables<br/>\$'000</b> | <b>Available for<br/>sale<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|---|---|---|--|-------------------------|
| <b>30 June 2018</b>                                     |   |   |  |                         |
| Cash and cash equivalents                               | -   | 1,317                                       | -  | 1,317                   |
| Receivables (excluding GST receivables and prepayments) | -   | 53,422                                      | -  | 53,422                  |
| Derivative financial instruments                        | 3,726   | -   | -  | 3,726                   |
| Available for sale financial assets                     | -   | -   | 43,149                                   | 43,149                  |
|   | <u>3,726</u>                                  | <u>54,739</u>                               | <u>43,149</u>                            | <u>101,614</u>          |
| <b>30 June 2017</b>                                     |   |   |  |                         |
| Cash and cash equivalents                               | -   | 8,013                                       | -  | 8,013                   |
| Receivables (excluding GST receivable and prepayments)  | -   | 52,651                                      | -  | 52,651                  |
| Derivative financial instruments                        | 1,886   | -   | -  | 1,886                   |
| Available for sale financial assets                     | -   | -   | 35,752                                   | 35,752                  |
|   | <u>1,886</u>                                  | <u>60,664</u>                               | <u>35,752</u>                            | <u>98,302</u>           |

### 31 Financial risk management (continued)

| Liabilities                      | Derivatives<br>for hedging<br>\$'000 | Measured at<br>amortised<br>cost<br>\$'000 | Total<br>\$'000 |
|----------------------------------|--------------------------------------|--|-----------------|
| <b>30 June 2018</b>              |                                      |  |                 |
| Payables                         | -                                    | 41,105                                     | 41,105          |
| Employee entitlements            | -                                    | 11,827                                     | 11,827          |
| Borrowings                       | -                                    | 384,948                                    | 384,948         |
| Derivative financial instruments | <u>8,245</u>                         | <u>-</u>                                   | <u>8,245</u>    |
|                                  | <u>8,245</u>                         | <u>437,880</u>                             | <u>446,125</u>  |
| <b>30 June 2017</b>              |                                      |  |                 |
| Payables                         | -                                    | 32,569                                     | 32,569          |
| Employee entitlements            | -                                    | 10,111                                     | 10,111          |
| Borrowings                       | -                                    | 297,915                                    | 297,915         |
| Derivative financial instruments | <u>13,443</u>                        | <u>-</u>                                   | <u>13,443</u>   |
|                                  | <u>13,443</u>                        | <u>340,595</u>                             | <u>354,038</u>  |

### 32 Capital management

The Group's capital is its equity, which comprises equity contributed by disestablished councils, equity contributed by disestablished CCOs, reserves and accumulated funds. Equity is represented by net assets.

The Local Government Act 2002 requires the Group's sole shareholder, the Auckland Council to manage its revenues, expenses, assets, liabilities and general financial dealings prudently. The Group's equity is largely managed as a by product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings. These are monitored by using cash flow forecast analysis and detailed budgeting processes.

The objective of managing the Group's equity is to ensure that the Group effectively achieves its objectives and purpose, whilst remaining a going concern.

The POAL Group borrows under a negative pledge arrangement that requires certain certificates and covenants:

- minimum interest cover of 1.50 : 1.00 (2017: 1.50 : 1.00); and
- maximum gearing ratio of 65% (2017: 65%).

There have been no breaches of this negative pledge during the current and previous financial periods.

### 33 Capital commitments and operating lease commitments

#### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

|                                  | 2018<br>\$'000       | 2017<br>\$'000       |
|----------------------------------|----------------------|----------------------|
| <b>Capital commitments</b>       |                      |                      |
| Property, plant and equipment    | 56,150               | 51,834               |
| Intangible assets                | 126                  | -                    |
| Investment property              | <u>14,328</u>        | <u>1,088</u>         |
| <b>Total capital commitments</b> | <u><b>70,604</b></u> | <u><b>52,922</b></u> |

#### (b) Operating lease commitments

The future minimum lease payments in relation to non-cancellable operating leases are payable as follows:

|  | 2018<br>\$'000      | 2017<br>\$'000      |
|--|---------------------|---------------------|
| Within one year                        | 962                 | 961                 |
| Between one and five years             | <u>1,067</u>        | <u>2,026</u>        |
| Total non-cancellable operating leases | <u><b>2,029</b></u> | <u><b>2,987</b></u> |

The Group leases land and premises under a non-cancellable operating lease agreement. The lease reflects normal commercial arrangements with escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

|  | 2018<br>\$'000       | 2017<br>\$'000       |
|--|----------------------|----------------------|
| Within one year                        | 7,947                | 7,381                |
| Between one and five years             | 32,590               | 27,276               |
| More than five years                   | <u>32,124</u>        | <u>39,906</u>        |
| Total non-cancellable operating leases | <u><b>72,661</b></u> | <u><b>74,563</b></u> |

No contingent rents have been recognised (2017: none).

The majority of operating leases relate to investment property owned by the POAL Group with lease terms between 1 to 17 years. Further operating leases relate to buildings within port operation boundaries included in property, plant and equipment and have a lease term between 1 to 25 years. All operating lease contracts contain market review clauses in the event that the lessees exercise their option to renew. The lessees do not have an option to purchase the property at the expiry of the lease period.

### 34 Contingent assets and liabilities

As at 30 June 2018 the Parent had no contingent liabilities (2017: \$Nil).

POAL has a performance bond of \$810,000 (2017: \$810,000) with Auckland Council to ensure that the final finishing of the reclamation of the Fergusson Container terminal is undertaken and that an accessible esplanade reserve is provided. Ports of Auckland Limited pays Westpac a premium to take on the bond risk. No event has occurred that would cause this guarantee to be called upon.

POAL potentially has a liability for repairs and maintenance on Queens Wharf of up to \$1.5 million. The expense is likely to be incurred within a ten to fifteen year time horizon.

Refer to note 18(e) for details of the Group's share of the associates' and joint ventures' contingencies. The site development costs have been estimated based on work undertaken by a quantity surveyor

### 35 Related party transactions

ACIL is a wholly owned subsidiary of the Auckland Council. All members of the Auckland Council Group are considered to be related parties of Auckland Council Investments Limited. This includes the subsidiaries identified in note 19 and the associated entities and joint ventures identified in note 18 (b).

|  | 2018<br>\$'000        | 2017<br>\$'000       |
|--|-----------------------|----------------------|
| <b>Transactions with related parties:</b>  |                       |                      |
| <b>Auckland Council</b>  |                       |                      |
| Services provided to Auckland Council Investments Limited                        | 15                    | 15                   |
| Dividends paid by Auckland Council Investments Limited                           | 129,418               | 85,858               |
| Services provided to Ports of Auckland Limited                                   | 1,497                 | 1,439                |
| Tax losses gifted to Ports of Auckland Limited and Auckland Film Studios Limited | <u>3,460</u>          | <u>6,756</u>         |
|  | <u><b>134,390</b></u> | <u><b>94,068</b></u> |
| <b>Entities under common control</b>   |                       |                      |
| Services provided by Ports of Auckland Limited                                   | 361                   | 422                  |
| Services provided to Ports of Auckland Limited                                   | 610                   | 762                  |
| Subvention payment to Watercare Services for tax losses                          | <u>6,671</u>          | <u>3,903</u>         |
|  | <u><b>7,642</b></u>   | <u><b>5,087</b></u>  |
| <b>Associates and joint ventures</b>   |                       |                      |
| Services provided by Ports of Auckland Limited                                   | 168                   | 3,174                |
| Services provided to Ports of Auckland Limited                                   | 435                   | 2,608                |
| Net dividends received   | 58,965                | 52,749               |
| Advances   | 60                    | 3,351                |
| Advance repayments   | 228                   | 1,250                |
| Advances impairment  | <u>-</u>              | <u>2,870</u>         |
|  | <u><b>59,856</b></u>  | <u><b>66,002</b></u> |

### 35 Related party transactions (continued)

|   | 2018<br>\$'000       | 2017<br>\$'000       |
|---|----------------------|----------------------|
| <b>Outstanding related party balances at year-end are as follows:</b> |                      |                      |
| <b>Current receivables</b>  |                      |                      |
| Auckland Council  | 18,738               | 20,009               |
| Entities under common control   | -                    | -                    |
| Associates and joint ventures   | <u>21</u>            | <u>30</u>            |
|   | <u><b>18,759</b></u> | <u><b>20,039</b></u> |
| <br><b>Non-current receivables</b>                                    |                      |                      |
| Associates and joint ventures   | <u>2,470</u>         | <u>2,639</u>         |
|   | <u><b>2,470</b></u>  | <u><b>2,639</b></u>  |
| <br><b>Current payables and borrowings</b>                            |                      |                      |
| Auckland Council payables   | 2,064                | 96                   |
| Auckland Council borrowings   | -                    | -                    |
| Entities under common control   | 6,552                | 6,174                |
| Associates and joint ventures   | <u>37</u>            | <u>36</u>            |
|   | <u><b>8,653</b></u>  | <u><b>6,306</b></u>  |

Except where outlined below no interest is charged on the loans to related parties.

During the period the Group entered into transactions with companies in which there are common directorships. These transactions have occurred on an arm's length commercial basis, without special privileges.

#### Transactions with associates

##### AIAL

The Group received an ordinary dividend during the year of \$56,594,893 (2017: \$50,602,493) from AIAL which was treated as a decrease in investment in the Group.

### 36 Remuneration

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Directors fees   | 787            | 761            |
| Senior Management Team, including the Chief Executive        | 3,549          | 3,331          |
| <i>Number of full-time equivalent senior management team</i> | <b>9</b>       | <b>9</b>       |

The key management personnel are the CEO of the Parent, all the directors of the Parent and subsidiaries and the CEO and the direct reports to the CEO of POAL.

The Group does not provide any non cash benefits to directors and key management personnel in addition to their directors fees or salaries.

### 36 Remuneration (continued)

The Directors and the total remuneration paid and accrued to them during the year ended 30 June, were as follows:

|   | 2018<br>Whole dollars | 2017<br>Whole dollars |
|---|-----------------------|-----------------------|
| <b>ACIL Board</b>                           |                       |                       |
| Keith Taylor (Chair)                        | 83,605                | 71,050                |
| Linda Robertson                             | 41,764                | 35,525                |
| Hinerangi Raumati                           | 46,264                | 35,525                |
| <b>AFSL Board</b>                           |                       |                       |
| James Hill (Chair)                          | 9,100                 | 36,500                |
| Alan Sorrell                                | 6,461                 | 26,000                |
| Richard Jeffery - Commenced 1 February 2017 | 6,564                 | 10,833                |
| <b>POAL Board</b>                           |                       |                       |
| Liz Coutts (Chair)                          | 128,000               | 120,000               |
| Rodger Fisher                               | 90,000                | 90,000                |
| Andrew Bonner                               | 64,000                | 60,000                |
| Patrick Snedden                             | 64,000                | 60,000                |
| Jonathon Mayson                             | 42,000                | 60,000                |
| Sarah Haydon - Commenced 1 August 2016      | 77,333                | 60,000                |
| Karl Smith - Commenced 1 October 2016       | 64,000                | 45,000                |
| Wayne Walden - resigned 31 December 2016    | -                     | 40,000                |
| W M Osborne                                 | 64,000                | 10,000                |
|   | <b>787,091</b>        | <b>760,433</b>        |
|   | 2018                  | 2017                  |

**The number of employees paid more than \$100,000 annually is as follows:**

|                       |            |            |
|-----------------------|------------|------------|
| \$100,000 - \$120,000 | 121        | 93         |
| \$120,001 - \$140,000 | 60         | 40         |
| \$140,001 - \$160,000 | 16         | 23         |
| \$160,001 - \$180,000 | 7          | 5          |
| \$180,001 - \$200,000 | 5          | 7          |
| \$200,001 - \$220,000 | 9          | 5          |
| \$220,001 - \$240,000 | 4          | 4          |
| \$240,001 - \$260,000 | 4          | 5          |
| \$260,001 - \$280,000 | 4          | 1          |
| \$280,001 - \$300,000 | -          | 2          |
| \$300,001 - \$320,000 | 1          | 1          |
| \$320,001 - \$340,000 | 2          | 1          |
| \$340,001 - \$360,000 | 2          | 3          |
| \$360,001 - \$380,000 | 1          | -          |
| \$380,001 - \$400,000 | -          | -          |
| \$400,001 - \$420,000 | -          | -          |
| \$420,001 - \$440,000 | -          | 1          |
| \$440,001 - \$460,000 | 1          | -          |
| \$800,000 - \$820,000 | -          | -          |
| \$880,001 - \$900,000 | 1          | 1          |
|                       | <b>238</b> | <b>192</b> |

### **37 Events occurring after the balance date**

Auckland Council agreed in May 2018 that ACIL will be disestablished in 2019 and all assets and liabilities of ACIL would be transferred to Auckland Council. The consideration for the transfer will be \$1,765 million and is based on the carrying value of POAL and AIAL at 30 June 2018 as outlined below:

The consideration for the transfer of POAL shares will be \$330 million and is the carrying value of the investment in the ACIL parent financial statements, being the cost of the investment at acquisition.

The consideration for the transfer of AIAL shares will be \$1,435 million and is the carrying value of the investment in the ACIL group financial statements. AIAL is treated as an associate and is accounted for using the equity method as described in note 2.

Concurrently with the share transfer ACIL will declare a special dividend, which will be equal to the consideration receivable for the transfer of shares in POAL and AIAL. This will result in an in substance distribution of the shares in POAL and AIAL to Auckland Council by ACIL.

**Auckland Council Investments Limited  
Statement of service performance  
For the year ended 30 June 2018**

**Statement of service performance**

**For the year ended 30 June 2018**

During the year, ACIL operated in accordance with the 2017-2020 Statement of Intent (SOI). The progress against the SOI targets is summarised below.

**Auckland Council Investments Limited Semi Group**

| <b>Output</b>   | <b>Performance Measure</b>                                       | <b>Performance Target</b>   | <b>Results/Commentary</b>  | <b>Target met</b> |
|---|--|---|--|-------------------|
| ACIL generates financial returns for the Council by acting commercially, within the constraints of the Accountability Policy  | Operating Surplus after Tax of the ACIL parent                   | \$91.2 million  | \$105.3 million  | ✓                 |
|   | Return on Equity of ACIL group                                   | 5.9%  | 26.2%.<br><br>The significant revaluation from AIAL and its profit from the sale of its shares in North Queensland Airports contributed to this out performance in 2018.     | ✓                 |
| ACIL distributes financial returns to the Council by acting commercially, within the constraints of the Accountability Policy | Dividend Distributions   | \$91.2 million  | \$129.4 million<br><br>The \$129.4 million dividends includes a special dividend of \$22.9 million for transferring AFSL to Auckland Council.                                | ✓                 |
| ACIL monitors the activities and strategy of POAL, AIAL and AFSL  | Quarterly report to the Accountability and Performance Committee | The quarterly report is provided within specified timeframes and meets requirements of the Shareholder's Expectations Guide | ACIL has been monitoring the activities and strategy of POAL, AIAL and AFSL and reporting to the Council.<br><br>Note: AFSL transferred to Auckland Council in October 2017. | ✓                 |
| ACIL and its subsidiaries have regard to the Environmental, Social and Governance considerations                              |  |   | ACIL and its subsidiaries are having regard to the Environmental, Social and Governance considerations.  | ✓                 |

**Auckland Council Investments Limited**  
**Statement of service performance**  
**For the year ended 30 June 2018**

**POAL Group**

| <b>Output</b>  | <b>Performance Measure</b>  | <b>Performance Target</b>  | <b>Results/Commentary</b>                          | <b>Target met</b> |
|--|---|--|--|-------------------|
| Competent Directors are appointed to the POAL Board  | Timely consideration of relevant information with regard to candidates for appointments | Competent Directors are appointed  | POAL is considered to have competent directors.    | ✓                 |
|  | Report to Auckland Council about proposed appointments                                  | Auckland Council is kept fully informed and consulted in advance about proposed appointments | No directors were appointed to POAL board in 2018. | ✓                 |
| Progress towards the target of increasing financial returns from POAL is closely monitored | Return on Equity  | RoE increases to 9.1% by 30 June 2018  | 10.7%  | ✓                 |

POAL's ROE is calculated as normalised net profit after tax divided by closing equity (excluding 2012 and subsequent revaluations).

**Auckland International Airport Limited**

| <b>Output</b>   | <b>Performance Measure</b>  | <b>Performance Target</b>                                       | <b>Results/Commentary</b>   | <b>Target met</b> |
|---|---|---|---|-------------------|
| Exercise voting rights in AIAL on all decisions/motions requiring shareholder input | Timely consideration of relevant information with regard to the decision being made | Voting rights are exercised                                     | ACIL exercised its voting rights at the AIAL AGM in October 2017. | ✓                 |
|   | Advise Council on proposed decisions/motions  | Council is kept fully informed about proposed decisions/motions | The Council was informed about AIAL's AGM resolutions.            | ✓                 |

**Auckland Council Investments Limited**  
**Statement of service performance**  
**For the year ended 30 June 2018**

**Auckland Film Studios Limited**

| <b>Output</b>  | <b>Performance Measure</b>  | <b>Performance Target</b>   | <b>Results/Commentary</b>   | <b>Target met</b> |
|--|---|---|---|-------------------|
| Competent Directors are appointed to the AFSL Board                        | Timely consideration of relevant information with regards to the candidates for appointment | Competent Directors are appointed   | AFSL is considered to have competent directors.   | ✓                 |
|  | Advise Council about proposed appointments  | Council is kept fully informed and consulted in advance about proposed appointments | No directors were appointed to the AFSL board in 2018.<br><br>Note: AFSL transferred to Auckland Council in October 2017. | ✓                 |
| Progress against AFSL's target to at least break-even is closely monitored | AFSL's Net Profit After Tax (NPAT)  | NPAT is positive  | AFSL NPAT from 1 July to 30 September is positive.  | ✓                 |