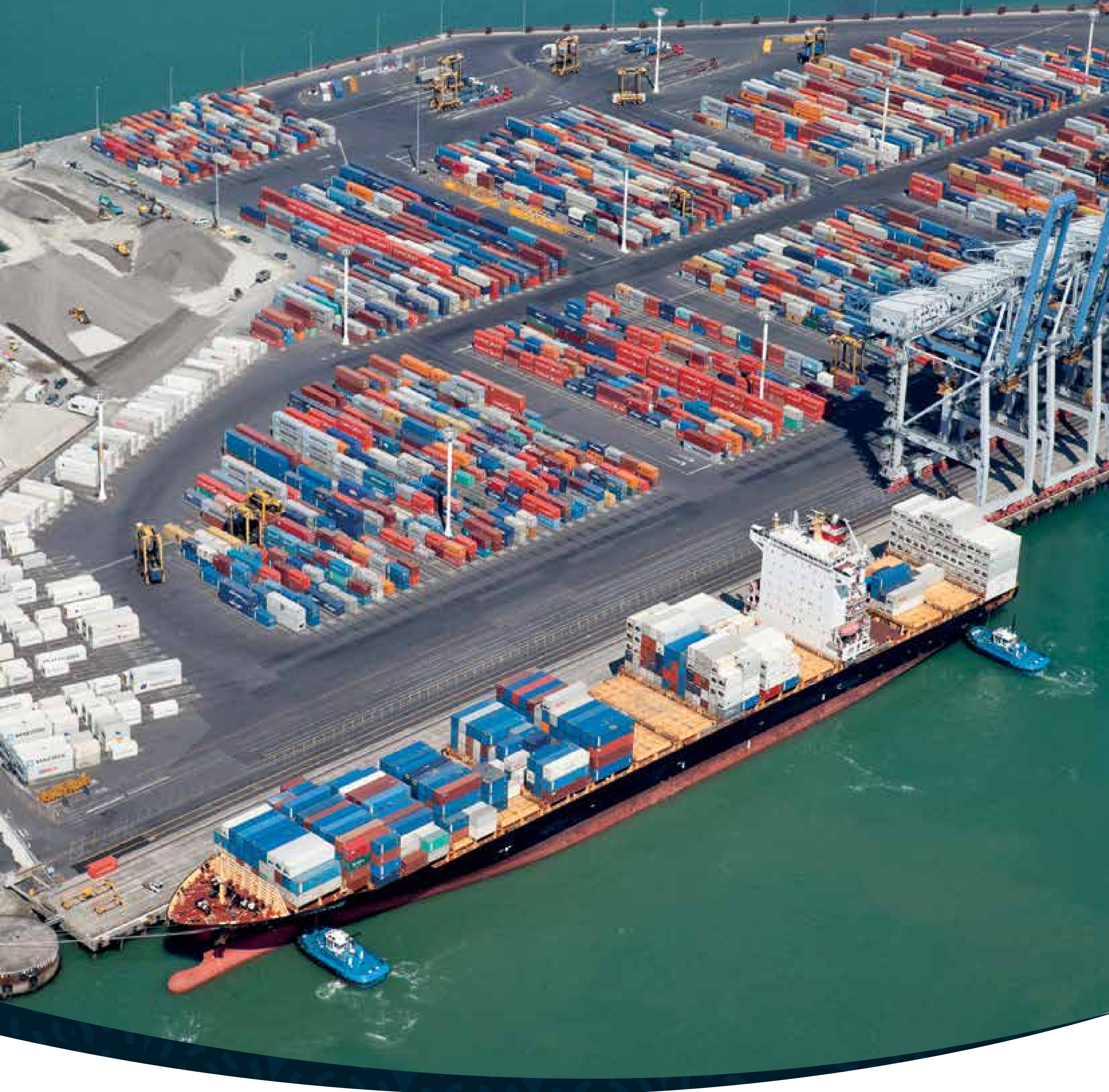
Auckland Council Investments Limited

Annual Report for year ended 30 June 2016



Auckland Council Investments

An Auckland Council Organisation

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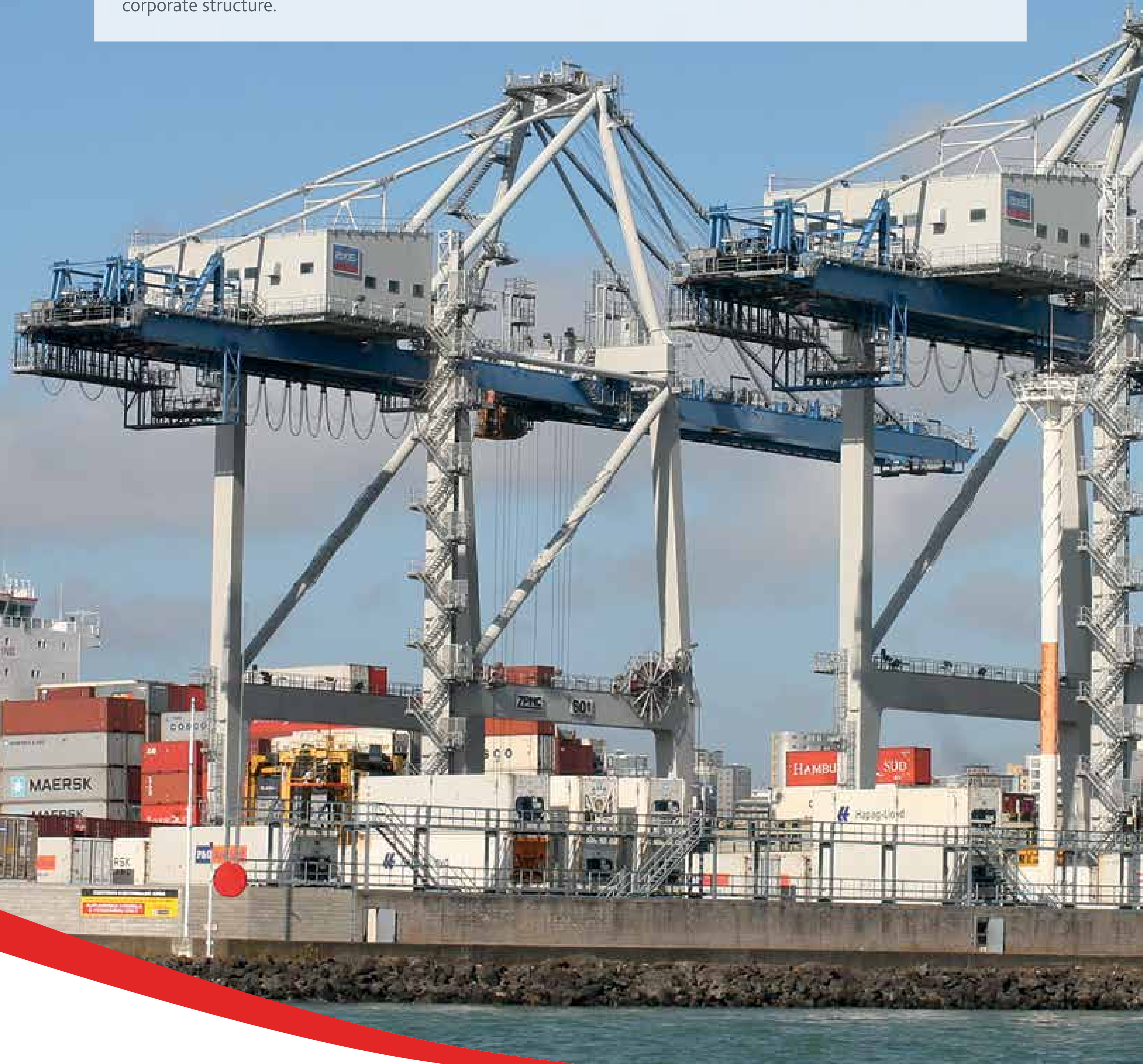
Chairman's and Chief Executive's review

Auckland Council Investments Limited (ACIL) completed its sixth year as the steward of Auckland Council's strategic equity investments with continued growth and another strong financial performance.

The year has been marked by some significant changes including the restructuring of ACIL's balance sheet and corporate structure.

The changes arising from the 2014 Council review of Council Controlled Organisations continued to be implemented with a new Board and new Chief Executive taking office during the year.



Performance overview

ACIL's surplus after tax for the year was $121.7m, compared to $110.7m in 2015. Total comprehensive income for the year was $367.1m compared with $135.5 in 2015, driven by significant revaluations in both Auckland International Airport Limited (AIAL) and Ports of Auckland Limited (POAL). The company paid a dividend to Auckland Council of $66.5m ($75.6m in 2015) as well as interest of $12.6m, thus contributing over $79.1m to Council funding.

ACIL's total return on equity in 2016 was 21.4% compared to 12.3% in 2015. The significant revaluations from both the POAL and AIAL contributed to this performance metric against a target of 7% for the year.

Ports of Auckland

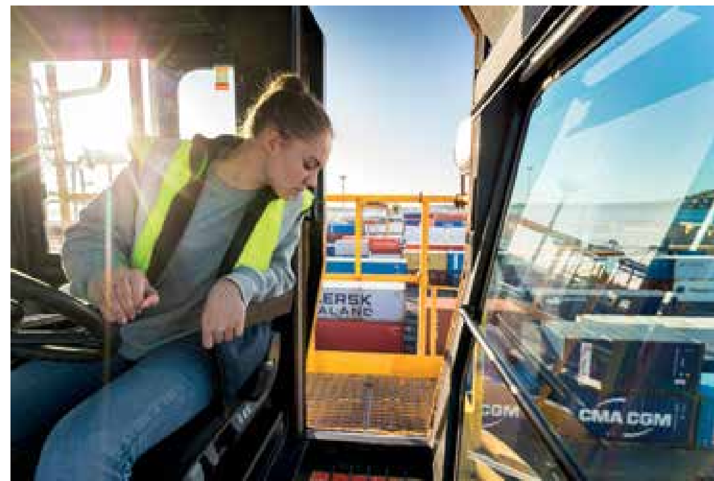
Ports of Auckland continued to perform strongly in 2016 during a very challenging period for the global shipping industry. Shipping volumes were down in container and breakbulk categories and marginally ahead in car volumes. The year saw the completion of the Port Future Study by Auckland Council, and the response to that study will be important to the future economic development of both the city and the port company.

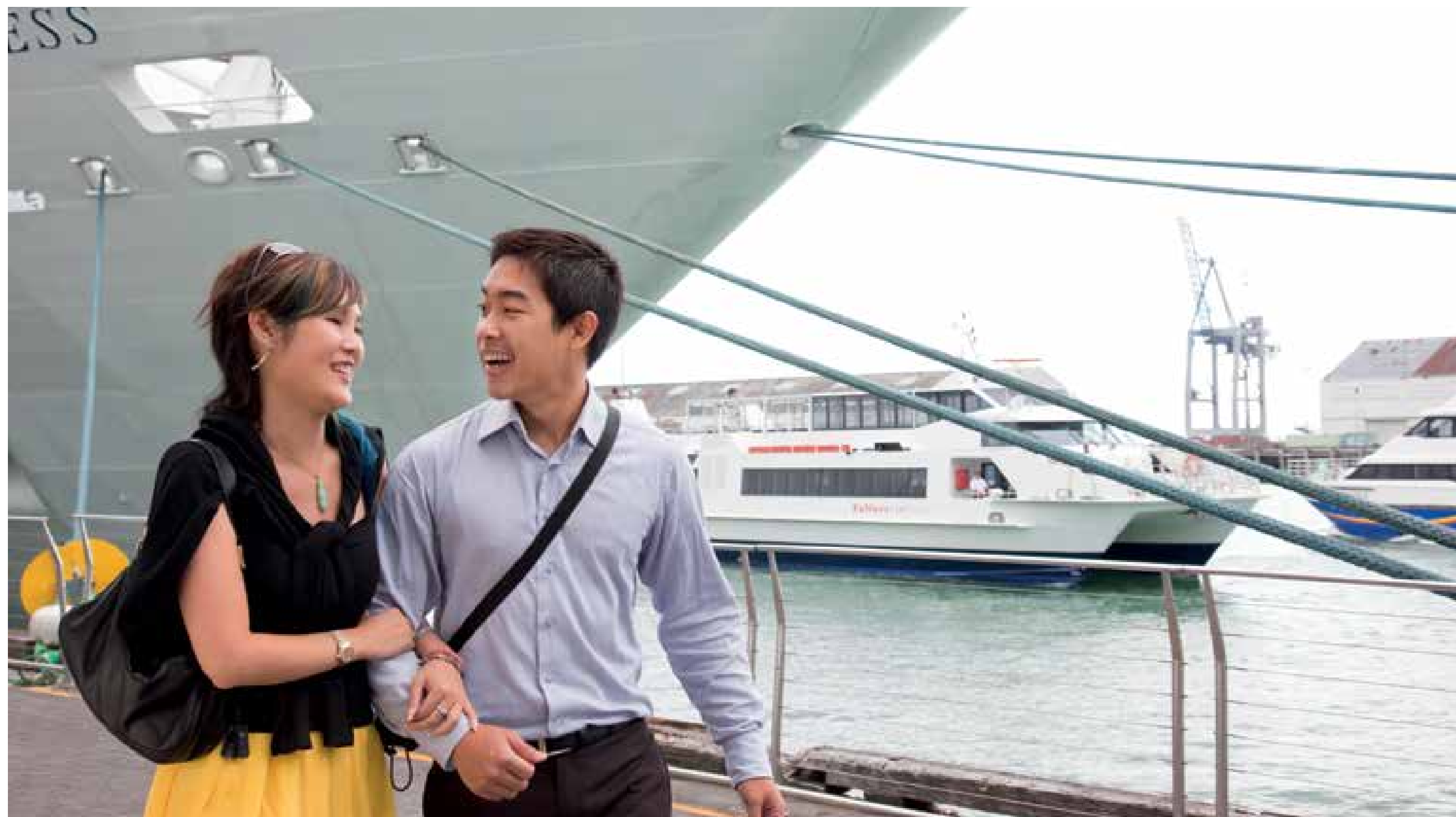
POAL achieved a surplus after tax of $84.0m on turnover of $209.9m compared to a surplus of $63.2m last year. It paid a dividend of $42.2m to ACIL ($54.8m in 2015).

During the year, a new Chair in Liz Coutts was appointed following the retirement of Chairman Graeme Hawkins who had signalled his retirement some months earlier.

POAL continues to be New Zealand's (and Australasia's) most productive port in terms of labour, ship and vessel productivity. This was recognised by POAL winning the "Best Seaport – Oceania" in the Asian Freight Logistics and Supply Chain awards for 2016.

As part of its strategy of offering integrated supply chain solutions to its major customers, POAL acquired land near Hamilton for the building of a further inland freight hub.





Auckland International Airport Limited

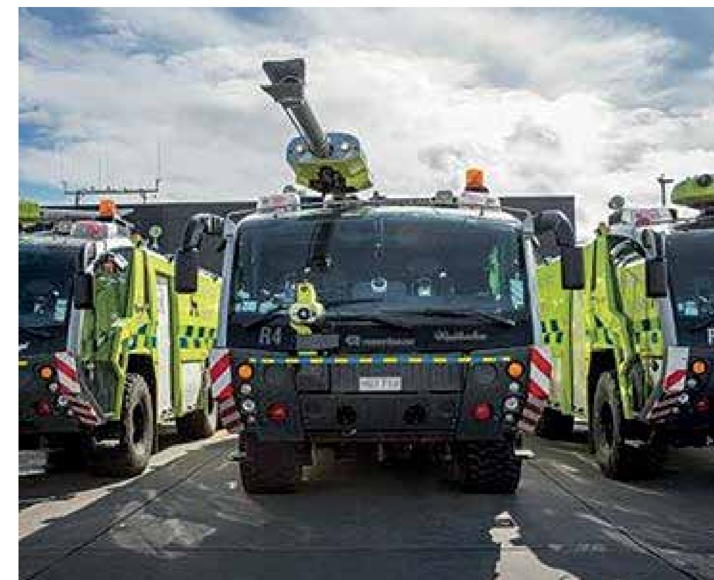
AIAL continued its strong performance during 2016 with the company delivering a profit after tax of $262.4m with ACIL's share of this being $61.6m. A dividend of $42.1m was paid to the ACIL group.

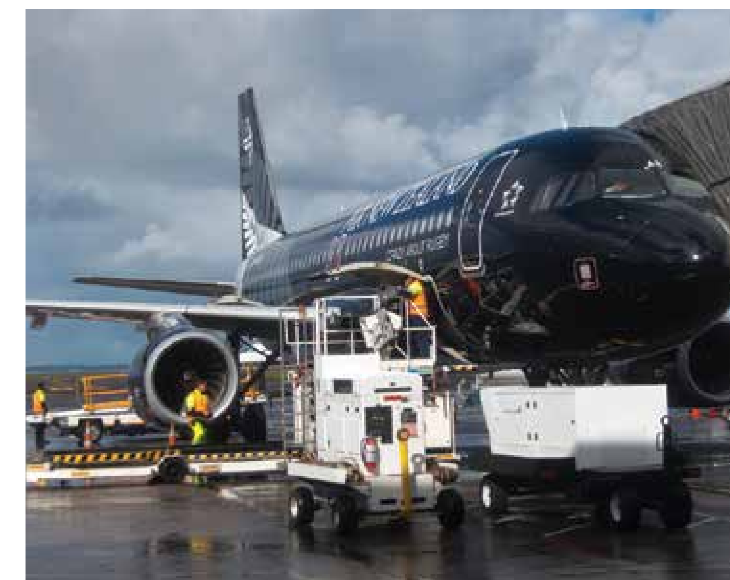
AIAL is New Zealand's largest international airport and as such is New Zealand's aviation and tourism gateway. This year has seen a growth in both the number and capacity of international airlines landing at AIAL as well as growth in the ancillary services AIAL offer passengers.

Passenger numbers through Auckland Airport grew 9.1% to 17.3m, of whom international passengers comprised 8.8m.

In 2016, AIAL's share price increased from $4.94 to $6.50, with the market value of ACIL's stake in the company, on behalf of Auckland Council, reaching $1.7 bn.

During the year, AIAL celebrated its 50th anniversary of its founding.





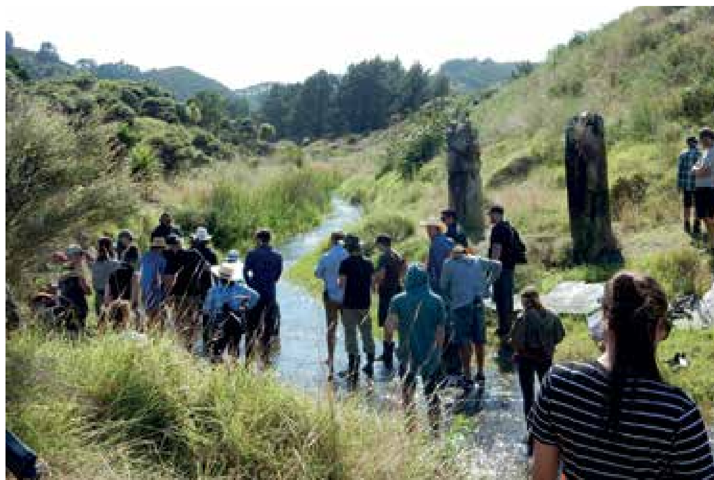
Auckland Film Studios Limited

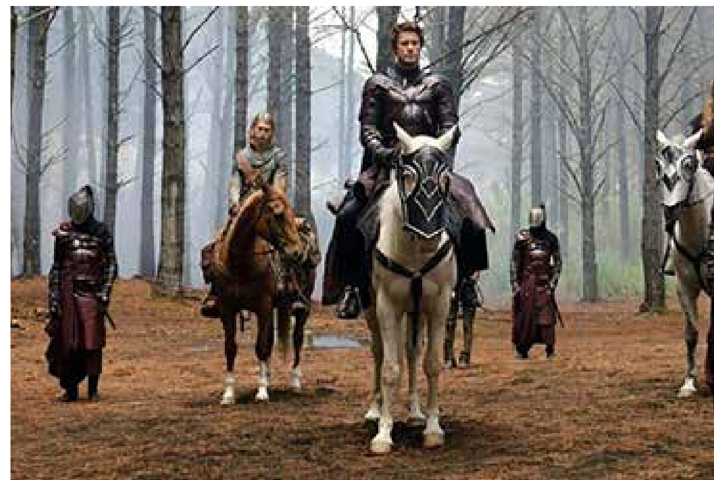
Auckland remains an attractive place to produce film and television despite a strong exchange rate, driven in part by government incentives and in part by the quality and skills of the workforce in the film industry.

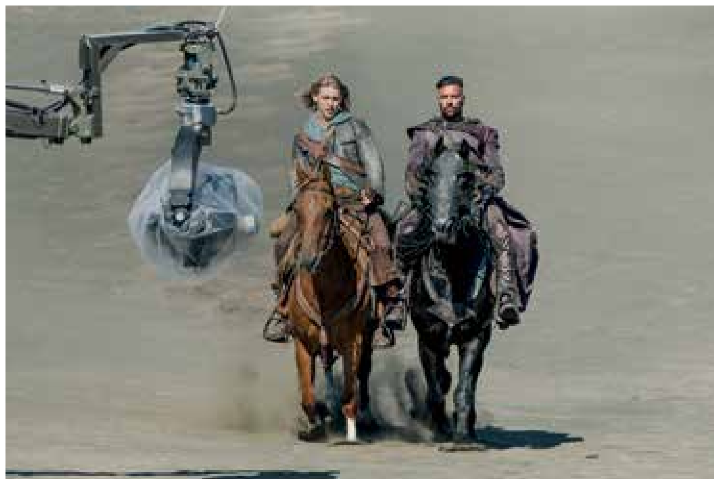
Auckland Film Studios Limited (AFSL) continued to trade profitably during the year achieving an occupancy rate of 63% (last year 97%). This resulted in an operating profit of $0.74m before tax compared to last year's $1.23m (after insurance proceeds were subtracted).

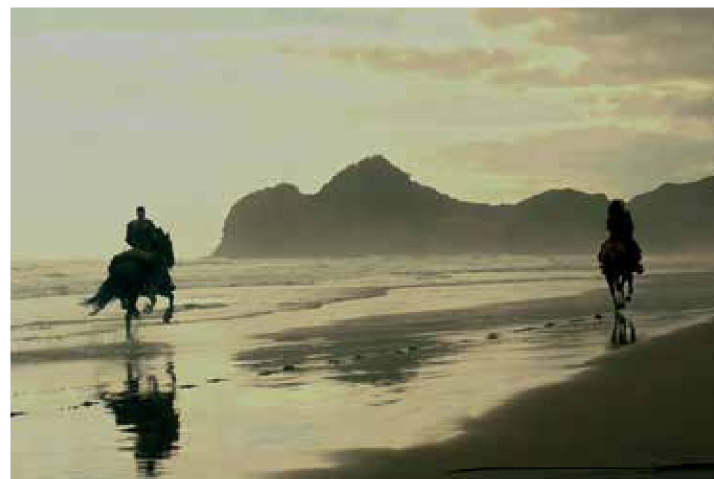
AFSL is currently considering rebuild options for the two studios destroyed by fire in July 2014.

The film and television work undertaken at AFSL this year included the second series of MTV's "Shannara" – based on Terry Brooks' best-selling fantasy books 'The Shannara Chronicles".









THE SHANNARA CHRONICLES

JANUARY 2016

Organisational Changes

As at 31 May 2016, ACIL carried out a structural change by amalgamating two subsidiary companies (Airport Shares (Auckland) Limited and Airport Shares (Manukau) Limited) into their parent. Each of the subsidiaries held shares in AIAL representing the shareholdings of the previous Auckland City and Manukau City entities. The rationale for maintaining separate shareholdings was no longer relevant and the amalgamation provides simplification of administration for the ACIL group.

In a separate transaction, Auckland Council converted $299m of loans to ACIL into new equity. In future while this will reduce interest paid by ACIL to Auckland Council, the Council will receive a corresponding increase in dividends. This transaction also simplifies administration for both ACIL and the Council.

As at the end of the 2016 financial year, the value of ACIL's investments are assessed as:-

POAL	$1.1bn
AIAL	$1.73 bn carrying value
AFSL	$10 m

Assessed value of the investments:

	Value 1 Nov 2010 $M	Value 30 Jun 2015 $M	Value 30 Jun 2016 $M
POAL	623	1,079	1,079[1]
AIAL	621	1,314	1,731[2]
AFSL	3	10	10[3]
Owned by ACIL	**1,247**	**2,403**	**2,820**
DFAP	**260**	**345[4]**	**N/A**
Total owned and managed by ACIL	**1,507**	**2,748**	**2,820**

Dividends and distributions paid since ACIL was established

	Dividends paid $M	Distributions from the DFAP $M
2011	13.3	0.0
2012	30.0	0.0
2013	45.0	24.0
2014	156.0	25.5
2015	75.6	0.0[5]
2016	66.5	N/A
	386.4	**49.5**

Appreciation and thanks

The reduction in activities as a result of the transfer of the DFAP resulted in Gary Swift retiring from the position of Chief Executive on 30 September 2015 and being replaced by John Crawford who works as a part-time chief executive. The five member board retired on 31 October 2015 and was replaced by a three member board, one of the decisions arising from the CCO review.

We are appreciative of the efforts of the former leadership team of Gary and the Board who have established and served ACIL admirably over the past five years during what has been an extremely productive and profitable period for the company.

We also wish to record our thanks to Auckland Council staff who have assisted us over the last 12 months across a number of dimensions, and in particular Auckland Council's finance team who have always been available to help.

Finally, we wish to record our thanks and appreciation to the directors of our investee companies who have worked hard to produce the results for which we are all proud.

Keith Taylor
Chairman

John Crawford
Chief Exectuive

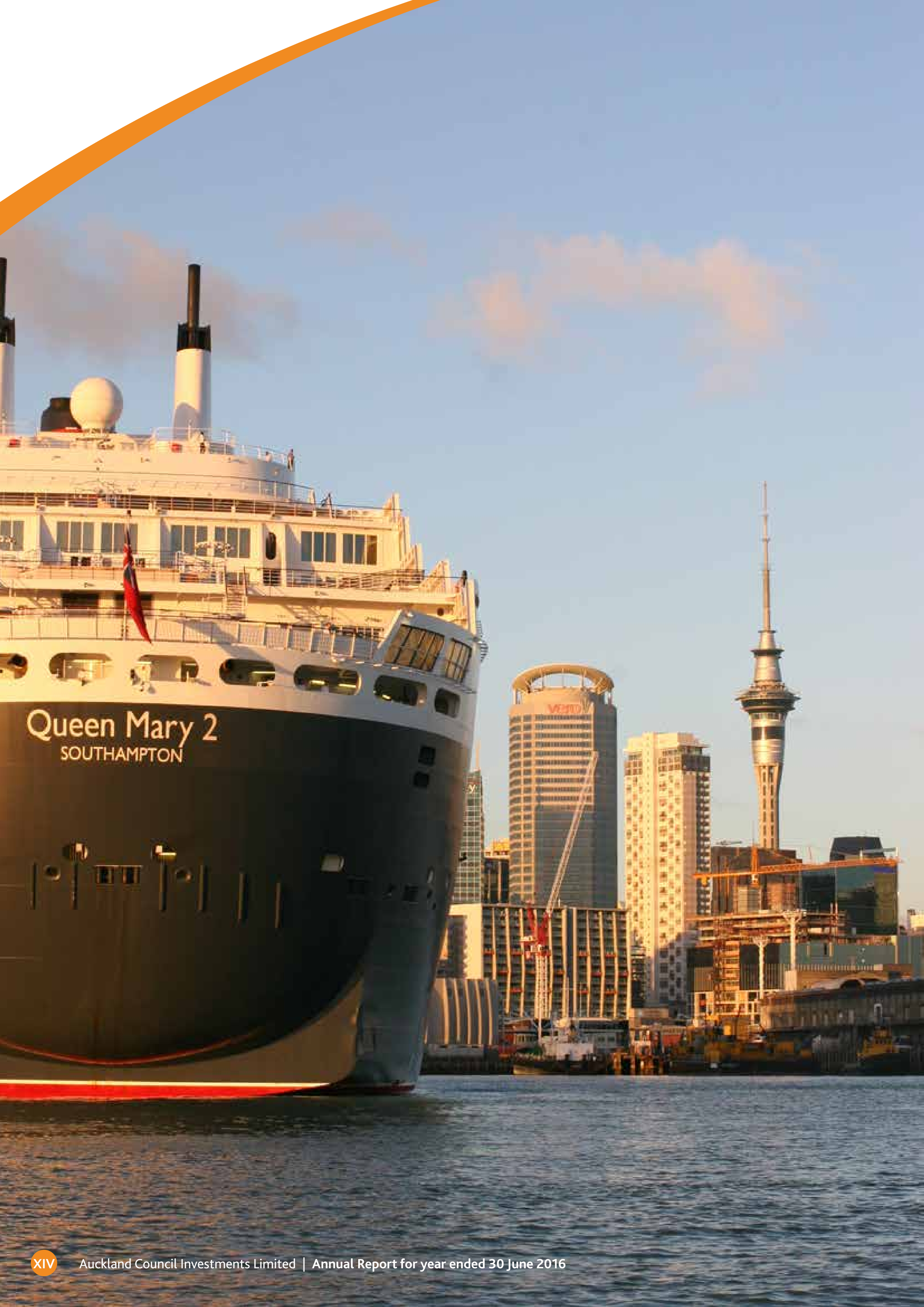
[1] Not independently valued in 2015 and 2016
[2] Market Value as at 30 June 2016
[3] Non-current asset value at 30 June 2016
[4] Value at 28 February 2015
[5] There were no distributions from the DFAP prior to the transfer of its management to Council on 1 March 2015.

Statutory information

Section 140 of the Companies Act 1993 requires a Director to disclose that he or she is interested in a transaction or proposed transaction with the company forthwith after becoming aware of that. A general notice entered in the Interests Register and disclosed to the Board that a Director is a shareholder, director, officer or trustee of another named company or person and is to be regarded as interested in any transaction with that company or person is sufficient disclosure of that interest.

Current disclosures in relation to the Companies Act 1993 are:

Name of Director having interest	Section 140C Companies Act 1993 disclosures
Keith Taylor	**Chairman:** Government Superannuation Fund and subsidiary, Gough Holdings Limited and subsidiaries, JM Butland Resettlement Trust and various wholly owned companies **Deputy Chair:** Reserve Bank of New Zealand **Director:** Port Marlborough and subsidiaries, Southern Cross Medical Care Society **Trustee:** Southern Cross Health Trust and subsidiary companies
Linda Robertson	**Chair:** Central Otago District Council Audit and Risk Committee **Director and Shareholder:** RML Consulting Limited **Director:** Crown Irrigation Investments Limited, Dunedin City Holdings Ltd, Dunedin City Treasury Ltd, King Country Energy Ltd, NZ Registry Services Ltd, NZPM Group Ltd, NZ Local Government Funding Agency **Member:** Audit & Risk Committee Ministry of Social Development Technical Advisory Committee, NZ Export Credit Office
Hinerangi Raumati	**Chair:** Parininihi ki Waitotara Inc., Parininihi ki Waitotara Farms GP Limited, Nga Miro Trust **Director:** Moana New Zealand Limited, Te Ohu Kaimoana Trustee Limited, Portfolio Management Services Limited, Taranaki Iwi Holdings Limited **Trustee:** Parininihi ki Waitotara Inc., Crown Forestry Rental Trust, Forestry Emissions Unit Trust **Member:** Te Korowai o Ngaruahine Trust Finance Audit & Risk Committee, Te Wananga o Aotearoa Investment Committee



Auckland Council Investments Limited Consolidated Financial Statements and Statement of Service Performance

for year ended 30 June 2016

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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 2016.

The Board of Directors of Auckland Council Investments Limited authorised these consolidated financial statements presented on pages 5 to 62 for issue on 19 September 2016.

For and on behalf of the Board.

Director

Director

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AUCKLAND COUNCIL INVESTMENT LIMITED'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Auckland Council Investments Limited (the Group). The Auditor-General has appointed me, Bryce Henderson, using the staff and resources of Deloitte, to carry out the audit of the financial statements and the performance information of the Group, consisting of Auckland Council Investments Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

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 2016, 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 performance information of the Group on pages 60 to 62.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; 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 performance information of the Group 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 2016.

Our audit was completed on 19 September 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

Deloitte.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the Group.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

Bryce Henderson
Deloitte
On behalf of the Auditor-General
Auckland, New Zealand

Consolidated statement of comprehensive revenue and expense

For the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Income			
Service and other revenue	4	212,269	223,218
Interest income		198	91
Other gains	6	12,547	1,262
Total income		225,014	224,571
Expenditure			
Personnel	7	(61,476)	(65,810)
Depreciation	17	(21,802)	(19,462)
Amortisation	18	(2,614)	(1,597)
Finance expense	5	(25,561)	(27,195)
Other	8	(46,488)	(69,045)
Reversal of prior periods impairment	17	7,656	23,470
Total operating expenditure		(150,285)	(159,639)
Surplus before tax and share of equity accounted investments surplus		74,729	64,932
Share of equity accounted investments surplus	16(a),(b)	62,723	53,998
Surplus before tax		137,452	118,930
Income tax expense	9	(15,707)	(8,233)
Surplus after tax		121,745	110,697
Surplus after tax attributable to:			
Equity holders of Auckland Council Investments Limited		121,745	110,697
		121,745	110,697
Other comprehensive revenue and expense			
Net change in fair value of land, buildings and wharves, net of tax	28(a)	81,762	13,975
Cash flow hedges	28(a)	(5,914)	(3,540)
Share of associates' movements in reserves	28(a)	167,740	15,813
Fair value gain, net of tax - available-for-sale financial assets	28(a)	1,808	(1,397)
Total other comprehensive income		245,396	24,851
Total comprehensive income		367,141	135,548
Total comprehensive revenue and expense for the year is attributable to:			
Equity holders of Auckland Council Investments Limited		367,141	135,548

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

For year ended 30 June 2016

		Attributable to equity holders of the Group						
	Notes	Contributed equity $'000	Property, plant and equipment revaluation reserve $'000	Hedging reserve $'000	Share of equity accounted investments reserve $'000	Available-for-sale investments reserve $'000	Accumulated funds $'000	Total equity $'000
Balance as at 1 July 2014		718,881	50,759	6,219	268,721	10,849	(12,335)	1,043,094
Comprehensive income								
Surplus for the year		-	-	-	-	-	110,697	110,697
Other comprehensive revenue and expense	28(a)	-	13,975	(3,540)	15,813	(1,397)	-	24,851
Total comprehensive revenue and expense		-	13,975	(3,540)	15,813	(1,397)	110,697	135,548
Transactions with owners								
Dividends	29	-	-	-	-	-	(75,600)	(75,600)
Transfers of tax balances for nil consideration	28(a)	-	-	-	-	-	2,120	2,120
Balance as at 30 June 2015		718,881	64,734	2,679	284,534	9,452	24,882	1,105,162
Balance as at 1 July 2015		718,881	64,734	2,679	284,534	9,452	24,882	1,105,162
Comprehensive income								
Surplus for the year		-	-	-	-	-	121,745	121,745
Other comprehensive revenue and expense	28(a)	-	81,762	(5,914)	167,740	1,808	-	245,396
Total comprehensive revenue and expense		-	81,762	(5,914)	167,740	1,808	121,745	367,141
Transactions with owners								
Dividends	29	-	-	-	-	-	(66,500)	(66,500)
Contribution of equity by way of debt capitalisation	27	299,000	-	-	-	-	-	299,000
Transfers of tax balances for nil consideration	28(c)	-	-	-	-	-	11,542	11,542
Balance as at 30 June 2016		1,017,881	146,496	(3,235)	452,274	11,260	91,669	1,716,345

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	**5,996**	7,907
Receivables	12	**37,155**	24,397
Inventories	13	**3,798**	4,199
Tax receivables		**739**	-
Non current assets held for sale	14	**24,194**	-
Total current assets		**71,882**	36,503
Non-current assets			
Receivables	12	**3,408**	3,438
Investment property	15	**159,305**	113,011
Equity accounted investments	16	**1,058,303**	874,681
Property, plant and equipment	17	**753,025**	666,646
Intangible assets	18	**18,994**	17,200
Available-for-sale financial assets	20	**25,232**	23,424
Total non-current assets		**2,018,267**	1,698,400
Total assets		**2,090,149**	1,734,903
LIABILITIES			
Current liabilities			
Payables	21	**30,355**	36,778
Employee entitlements	22	**6,930**	8,192
Borrowings	24	**8,786**	335,929
Derivative financial instruments	23	**3,583**	534
Tax payable		**-**	1,559
Provisions	26	**1,076**	3,107
Total current liabilities		**50,730**	386,099
Non-current liabilities			
Payables	21	**623**	645
Borrowings	24	**246,767**	176,000
Deferred tax liabilities	25	**63,008**	59,304
Derivative financial instruments	23	**11,506**	6,342
Employee entitlements	22	**1,170**	1,351
Total non-current liabilities		**323,074**	243,642
Total liabilities		**373,804**	629,741
Net assets		**1,716,345**	1,105,162
EQUITY			
Contributed equity	27	**1,017,881**	718,881
Reserves	28(a)	**606,795**	361,399
Accumulated funds	28(c)	**91,669**	24,882
Total equity		**1,716,345**	1,105,162

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		**234,652**	267,380
Interest received		**198**	91
Dividends received		**45,199**	41,053
Payments to suppliers and employees		**(159,591)**	(163,391)
Interest paid		**(11,218)**	(21,119)
Dividends paid on redeemable preference shares		**(1,433)**	(6,300)
Net income tax (refunded)/paid		**(3,707)**	(8,563)
Net cash inflow from operating activities	31	**104,100**	109,151
Cash flows from investing activities			
Payments for property, plant and equipment		**(38,461)**	(23,168)
Payments for investment property		**(39,681)**	(10,862)
Purchase of subsidiary, net of cash acquired		**-**	1,601
Sale of property, plant and equipment		**144**	435
Purchase of intangible assets		**(4,409)**	(7,904)
Net movement in advances to related parties		**39**	(1,254)
Net cash outflow from investing activities		**(82,368)**	(41,152)
Cash flows from financing activities			
Proceeds from borrowings		**220,000**	66,000
Repayment of borrowings		**(178,000)**	(54,918)
Dividends paid to company's shareholder	29	**(66,500)**	(75,600)
Net cash outflow from financing activities		**(24,500)**	(64,518)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts		**(2,768)**	3,481
Cash and cash equivalents and bank overdrafts at beginning of the year		**(22)**	(3,503)
Cash, cash equivalents, and bank overdrafts at the end of the year	11	**(2,790)**	(22)

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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 Auckland Film Studios Limited (AFSL), and 22.4% 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 the going concern basis.

(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.

(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.

2 Summary of significant accounting policies (continued)

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.

(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.

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.

2 Summary of significant accounting policies (continued)

(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 Company 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 Company 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.

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. Note 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 classes of assets below are subsequently measured at fair value less depreciation. The methods used to determine fair value are also disclosed below. 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.

Class of asset measured at fair value	Method applied to determine fair value
• Land and buildings	Market-based evidence/income
• Wharves	Depreciated Replacement Cost

For the assumptions used when applying the methods above please refer to note 17.

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 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.

2 Summary of significant accounting policies (continued)

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.

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:

Class of asset depreciated	Estimated useful life in years
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.

(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.

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.

2 Summary of significant accounting policies (continued)

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.

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the acquiree over the fair value of the net assets.

If, after reassessment, the Group's interest in the fair value of the acquiree's net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the acquiree, then the excess is recognised immediately in surplus or deficit as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in surplus or deficit and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the surplus or deficit on disposal.

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.

2 Summary of significant accounting policies (continued)

(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.

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:

- financial assets at fair value through surplus or deficit;
- 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) Financial assets at fair value through surplus or deficit

This category has two subcategories: financial assets held for trading and those designated at fair value through surplus or deficit on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. They are classified as current assets if they are held for trading or expected to be realised within 12 months of the period end date.

After initial recognition financial assets at fair value through surplus or deficit continue to be measured at fair value. Realised and unrealised gains and losses arising from the changes in the fair value of the financial assets at fair value through surplus or deficit category are included in surplus or deficit in the period in which they arise.

(ii) 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.

2 Summary of significant accounting policies (continued)

(iii) 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
- 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.

The Group currently has no intention of selling any assets classified as available-for-sale.

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.

2 Summary of significant accounting policies (continued)

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.

(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.

2 Summary of significant accounting policies (continued)

(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.

(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 38.

(p) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

2 Summary of significant accounting policies (continued)

(q) 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.

(r) 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.

(s) 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.

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, this is reflected through equity as a shareholder contribution.

(t) 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.

2 Summary of significant accounting policies (continued)

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.

(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
- 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".

2 Summary of significant accounting policies (continued)

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.

(w) Insurance contracts

The POAL Group 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, a premium is paid to ACC for the value of residual claims, and the liability for ongoing claims from that point passes back to ACC.

The liability for the 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. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government stock with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(x) 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.

(y) 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.

(z) 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 judgements 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, judgements 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

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 17). The revaluation exercise requires 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.

4 Service and other revenue

	2016 $'000	2015 $'000
Rental income	**6,348**	5,486
Port operations income	**204,885**	213,752
Dividend income	**1,011**	949
Other income	**25**	84
Insurance recoveries	**-**	2,947
Total service and other revenue	**212,269**	223,218

5 Finance expense

	2016 $'000	2015 $'000
Interest - borrowings	**24,128**	20,895
Dividend on redeemable preference shares	**1,433**	6,300
Total finance expense	**25,561**	27,195

5.04% cumulative redeemable preference shares

A final dividend of $1,433,000 (2015: $6,300,000) was paid to Arawata Finance on 21 September 2015 . The total amount has been charged as finance expense because the shares are classified as debt (refer note 24 (b)). The dividends are fully imputed.

6 Other gains

	2016 $'000	2015 $'000
Non financial instruments		
(Loss) / gain disposal of investments	**-**	891
Gain on sale of property, plant and equipment	**144**	12
Gain on changes in fair value of investment property (note 15)	**12,403**	359
Total other gains	**12,547**	1,262

7 Personnel

	2016 $'000	2015 $'000
Employee benefits expense	**55,282**	56,773
Defined contribution plan employer contributions	**2,082**	2,189
Restructuring costs and termination benefits	**99**	2,798
Temporary staff expenditure	**4,013**	4,050
Total personnel costs	**61,476**	65,810

Employer contributions to defined contribution plans include contributions to Kiwisaver.

8 Other expenses

	2016 $'000	2015 $'000
Fees to auditors:		
- Audit of financial statements	**399**	308
- Other assurance services (half year review of financial statements)	**31**	30
- Other services (tax services)	**-**	4
(Gain)/loss on bad and doubtful debts (note 12)	**74**	(9)
Professional services	**5,051**	8,498
Directors' fees	**632**	681
Impairment of investment in joint ventures (note 16)	**2,615**	-
(Impairment reversal) / impairment of property, plant and equipment (note 17)	**(1,421)**	4,517
Impairment of investment property	**-**	285
Donations	**5**	1
Loss on disposal of property, plant and equipment	**17**	2,138
Net foreign exchange loss / (gain)	**(6)**	46
Other operating expenses	**39,091**	52,546
Total other expenses	**46,488**	69,045

The auditor of ACIL is the Office of the Auditor-General. The approved auditor is Bryce Henderson of Deloitte.

9 Income tax expense

	2016 $'000	2015 $'000
Components of income tax expense		
Current tax	**11,891**	10,362
Deferred tax	**3,816**	(2,129)
Tax expense	**15,707**	8,233
Relationship between income tax expense and accounting profit		
Surplus before tax	**137,452**	118,930
Prima facie income tax at 28%	**38,487**	33,300
Prior period adjustment	**(688)**	80
Taxation effect of permanent differences	**(5,605)**	(1,974)
Tax loss offset	**(2,432)**	(9,432)
Tax credits utilised	**(14,055)**	(13,741)
Tax expense	**15,707**	8,233

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:

	2016 $'000	2015 $'000
Amounts recognised directly in equity		
Property, plant and equipment revaluation reserve (note 28(b))	**(2,233)**	5,435
Hedging reserve - cash flow hedges (note 28(b))	**2,345**	(1,387)
	112	4,048

Ports of Auckland Limited is part of the Auckland Council Group. The Company will utilise losses from the wider Auckland Council Group in the 2016 tax return. Auckland Council has a subvention payment agreement and loss offset election with Watercare Services Limited which will be utilised for any residual taxable income, $5,368,000 (2015:$8,064,000) has been provided for payment to Watercare Services Limited for this subvention agreement.

10 Imputation credit account

	2016 $'000	2015 $'000
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	**74,003**	121,230

The Company is a member of the Auckland Council tax consolidated group. The imputation credits shown above are the total for the tax consolidated group. This balance is available to each of the constituent entities.

11 Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank	**5,996**	7,907

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:

	2016 $'000	2015 $'000
Cash at bank	**5,996**	7,907
Bank overdrafts (note 24)	**(8,786)**	(7,929)
Balances per statement of cash flows	**(2,790)**	(22)

12 Receivables

	2016 $'000	2015 $'000
Current		
Trade receivables	**29,176**	20,954
Provision for doubtful receivables	**(227)**	(372)
Related party receivables (note 33)	**7,324**	2,410
GST receivable	**(711)**	212
Prepayments	**1,593**	1,193
Total current receivables	**37,155**	24,397
Non current		
Related party receivables (note 33)	**3,408**	3,438
Total non-current receivables	**3,408**	3,438
Total receivables	**40,563**	27,835

The carrying value of receivables approximates their fair value. The Group does not hold any collateral in respect of receivables.

12 Receivables (continued)

Impaired receivables
As at 30 June 2016 current trade receivables of the POAL Group with a nominal value of $107,000 (2015: $40,000) were impaired.

Past due but not impaired

As at 30 June 2016 trade receivables of $9,453,000 were past due but not impaired (2015: $4,635,000). These relate to a number of independent customers for whom there is no recent history of default.

The ageing profile of net trade receivables is as follows:

The average credit period for trade receivables for POAL Group at 30 June 2016 is 41.89 days (2015: 42.67 days).

	2016 $'000	2015 $'000
Not past due	**19,496**	15,947
Past due 1 to 60 days	**5,417**	4,156
Past due greater than 60 days	**4,036**	479
Balance at the end of the year	**28,949**	20,582

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

	2016 $'000	2015 $'000
Balance at beginning of the year	**372**	249
Provision for impairment recognised during the year	**147**	292
Receivables written off during the year as uncollectible	**(255)**	(13)
Unused amount reversed	**(37)**	(156)
Balance at end of the year	**227**	372

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.

Bad and doubtful trade receivables

The Group has recognised a loss of $74,000 in respect of bad and doubtful trade receivables (2015: gain of $9,000). The gain or loss has been included in "other" expenditure.

13 Inventories

	2016 $'000	2015 $'000
At cost	**3,706**	3,890
At net realisable value	**92**	309
Total inventories	**3,798**	4,199

No inventories are pledged as security for liabilities.

Inventory expense

The cost of inventories recognised as an expense was $6,957,000 (2015: $8,367,000). These costs were included in "other" expenditure.

14 Non current assets held for sale

	2016 $'000	2015 $'000
Land	**7,770**	-
Buildings, wharves and improvements	**10,624**	-
Investment properties - land	**5,800**	-
Total non-current assets held for sale	**24,194**	-

Ports of Auckland is negotiating with Panuku Development Auckland to sell the Port of Onehunga and make it available for public use.

Investment properties transferred to non-current assets held for sale are currently subject to a sale and purchase agreement.

15 Investment properties

	2016 $'000	2015 $'000
At fair value		
Balance at beginning of the year	**113,011**	82,433
Transfer from property, plant and equipment (note 17)	**4,049**	16,810
Capitalised subsequent expenditure	**39,542**	13,694
Net gain from fair value adjustment	**12,403**	359
Impairment provision	**-**	(285)
Disposals	**(3,900)**	-
Non-current assets held for sale	**(5,800)**	-
Balance at end of the year	**159,305**	113,011

Investment property reclassified to non-current assets held for sale of $5,800,000 comprise of POAL investment property which is currently subject to a sales and purchase agreement.

Reclassification / transfers in the current financial year of $4,049,000 represent a transfer from pavement to investment property. In the prior financial year $16,810,000 represented the amount reclassified from land to investment properties due to change in use. A new operating lease has been put in place in relation to the commencement of construction on site.

15 Investment properties (continued)

Valuation basis

The Group's accounting policy is for investment property to be measured 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.

Ports of Auckland

The valuations as at 30 June 2016 were performed by Seagar & Partners (Auckland) Limited and Colliers International. The valuations for the prior year 30 June 2015 was performed by Seagar & Partners (Auckland) Limited only. 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 the POAL Group and adopted as the carrying value in the financial statements subject to any specific adjustments required. The POAL Group's 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.

The POAL Group's investment property portfolio comprises a mixture of lessor's interest in both terminating and perpetual ground leases together with freehold land and buildings and waterspace licences. The waterspace licences can be 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 the right to receive the rental revenue and the right to review the revenue periodically when scheduled reviews and renewal occur.

The basis of 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.

Auckland Film Studios

The land and buildings comprising the Company's property are contained in Identifiers 493254 (Lot 1 DP 423998, 1.5010ha) and 493255 (Lot 2 DP 423998, 2.5288ha) North Auckland Registry and are contiguous. The allotments are recorded as 10 - 14 Hickory Avenue and 40 Henderson Valley Road on the District Valuation Roll respectively, Valuation Roll Reference 33620/5000.

The land and buildings have been valued by an independent registered valuer (Edward Hart and Michael Reay at Darroch Limited, Auckland) on 30 June 2016 at Fair Value in accordance with Accounting Standard NZ IAS-40 "Investment Property" at $10,200,000 exclusive GST (if any) ($10,000,000 for the year ended 30 June 2015) on a combined basis.

The Fair Value was determined primarily using the Direct Capitalisation of Income Approach by capitalising the actual or potential net income at the appropriate market derived rate of return. In situations where the contract rental varies from the anticipated market rent the rental surplus or rental shortfall is calculated on a present value basis and adjusted against the capitalised value, adjusted for costs associated with vacancy if these exist or are pending.

15 Investment properties (continued)

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

Asset valuation approach	Inputs used to measure fair value	2016 Range of significant unobserved inputs	2015 Range of significant unobserved inputs
Market capitalisation	Market capitalisation rate – rental income	5.50% to 6.50%	4.13% to 7.00%
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.	Market capitalisation rate – Waterspace licences	8.00%	8.00%
Direct sales comparison	Industrial land sales per sqm	$300 per sqm to $550 per sqm	$275 per sqm to $450 per sqm
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.			

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
Unobservable inputs within direct sales comparison valuation approach			
Rate per sqm	The rate per square metre of recently sold properties of a similar nature	Increase	Decrease
Unobservable inputs within the market capitalisation approach			
Gross market rent	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 Equity accounted investments

	2016 $'000	2015 $'000
Investments in associates	1,055,722	868,507
Investments in joint ventures	2,581	6,174
	1,058,303	874,681

(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 2016 %	2015 %
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.

The recoverable amount of the investment in AIAL as at 30 June 2016 is measured on a fair value less costs to sell basis as represented by the NZX quoted market price of $6.50 (2015: $4.94) per share at balance date.

Movements in carrying amounts

	2016 $'000	2015 $'000
Balance at beginning of the year	868,507	838,778
Additions	-	4
Share of surplus after income tax	61,555	51,997
Dividends received	(42,080)	(38,085)
Share of movement in reserves	167,740	15,813
Balance at end of year	1,055,722	868,507

16 Equity accounted investments (continued)

(b) Investments in joint ventures

Name of company	Interest held by the consolidated group 2016 %	2015 %
North Tugz Limited	50	50
PortConnect Limited	50	50
Nexus Logistics Limited	50	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

	2016 $'000	2015 $'000
Balance at beginning of the year	6,174	4,129
Additions	-	6,190
Share of surplus after income tax	1,168	2,001
Dividends received	(2,147)	(2,085)
Sale proceeds	-	(3,333)
Reclassification to related party receivable	-	(728)
Impairment	(2,614)	-
Balance at end of the year	2,581	6,174

(c) Share of joint venture's and associate's assets and liabilities	Aggregate balance 2016 $'000	2015 $'000	Group's portion 2016 $'000	2015 $'000
Current assets	109,744	95,849	26,441	23,773
Non-current assets	6,086,097	5,062,334	1,374,583	1,145,444
Total assets	6,195,841	5,158,183	1,401,024	1,169,217
Current liabilities	515,960	319,515	121,985	74,118
Non-current liabilities	1,769,158	1,765,782	395,915	399,404
Total liabilities	2,285,118	2,085,297	517,900	473,522
Net assets	3,910,723	3,072,886	883,124	695,695

(d) Share of joint venture's and associate's revenue, expenses and results	Aggregate balance 2016 $'000	2015 $'000	Group's portion 2016 $'000	2015 $'000
Revenues	604,444	540,429	143,653	129,716
Expenses	(264,549)	(250,014)	(67,040)	(63,608)
Profit before income tax	339,895	290,415	76,613	66,108

16 Equity accounted investments (continued)

(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.

17 Property, plant and equipment

	1 July 2015			Current year movements						30 June 2016		
2016	Cost and valuations $'000	Accumulated depreciation and impairment charges $'000	Carrying amount $'000	Current year additions $'000	Current year disposals $'000	Assets reclassified $'000	(Impairment)/ Impairment reversal $'000	Current year depreciation $'000	Revaluation surplus/ (deficit) $'000	Cost and valuations $'000	Accumulated depreciation and impairment charges $'000	Carrying amount $'000
Operational assets												
At cost & valuation												
Land	232,785	-	232,785	-	-	(7,770)	-	-	84,053	309,068	-	309,068
Buildings	29,051	(22)	29,029	189	-	(1,292)	-	(751)	(883)	26,301	(9)	26,292
Plant and equipment	153,540	(59,044)	94,496	10,187	-	7	-	(13,852)	-	156,243	(65,405)	90,838
Wharves	236,181	(9)	236,172	21,534	-	(8,504)	1,421	(3,494)	8,481	255,697	(87)	255,610
Other property, plant and equipment	18,286	(7,920)	10,366	3,139	(17)	(115)	-	(2,315)	-	21,146	(10,088)	11,058
Total operational assets	669,843	(66,995)	602,848	35,049	(17)	(17,674)	1,421	(20,414)	91,651	768,455	(75,589)	692,866
Infrastructural assets												
At cost												
Pavements	70,101	(6,303)	63,798	2,679	-	(4,930)	-	(1,388)	-	67,691	(7,532)	60,159
Total infrastructural assets	70,101	(6,303)	63,798	2,679	-	(4,930)	-	(1,388)	-	67,691	(7,532)	60,159
Total property, plant and equipment	739,944	(73,298)	666,646	37,728	(17)	(22,604)	1,421	(21,802)	91,651	836,146	(83,121)	753,025

	1 July 2014			Prior year movements						30 June 2015		
2015	Cost and valuations $'000	Accumulated depreciation and impairment charges $'000	Carrying amount $'000	Prior year additions $'000	Prior year disposals $'000	Assets reclassified $'000	(Impairment)/ Impairment reversal $'000	Prior year depreciation $'000	Revaluation surplus/ (deficit) $'000	Cost and valuations $'000	Accumulated depreciation and impairment charges $'000	Carrying amount $'000
Operational assets												
At cost & valuation												
Land	226,125	-	226,125	-	-	(16,810)	-	-	23,470	232,785	-	232,785
Buildings	30,064	(4,759)	25,305	722	-	440	-	(657)	3,219	29,051	(22)	29,029
Plant and equipment	118,612	(41,885)	76,727	30,541	(612)	(47)	-	(12,113)	-	153,540	(59,044)	94,496
Wharves	224,281	(6,533)	217,748	11,783	(1,824)	-	(4,517)	(3,219)	16,201	236,181	(9)	236,172
Other property, plant and equipment	15,711	(6,561)	9,150	3,779	(101)	(393)	-	(2,069)	-	18,286	(7,920)	10,366
Total operating assets	614,793	(59,738)	555,055	46,825	(2,537)	(16,810)	(4,517)	(18,058)	42,890	669,843	(66,995)	602,848
Infrastructural assets												
At cost												
Pavements	67,319	(4,899)	62,420	2,782	-	-	-	(1,404)	-	70,101	(6,303)	63,798
Total infrastructural assets	67,319	(4,899)	62,420	2,782	-	-	-	(1,404)	-	70,101	(6,303)	63,798
Total property, plant and equipment	682,112	(64,637)	617,475	49,607	(2,537)	(16,810)	(4,517)	(19,462)	42,890	739,944	(73,298)	666,646

17 Property, plant and equipment (continued)

Property, plant and equipment additions include finance costs capitalised of $57,000 (2015: $nil). The average effective interest rate used is 3.0% (2015: 0.0%).

An impairment reversal recognised in respect of property, plant and equipment during the financial year amounted to $1,423,000 (2015: impairment of $4,517,000). The impairment losses in the prior financial year are as a result of a High Court ruling revoking existing resource consents for the Bledisloe wharf extensions and the resulting provisioning. In 2016 a recovery from this provision has been made with the reuse of structural materials in the Fergusson North berth project.

Assets reclassified to non-current assets held for sale of $18,394,000 within property, plant and equipment comprise Onehunga Wharf and related assets.

Reclassification / transfers in the current financial year of $4,049,000 represent a transfer from pavement to investment properties. In the prior financial year the $16,808,000 represented the amount reclassified from land to investment properties due to change in use.

17 Property, plant and equipment (continued)

Valuations of land, buildings and wharves

At the end of each reporting period the POAL Group 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 2016, all land, buildings and wharves were revalued as at 30 June 2016 in accordance with financial reporting and the New Zealand Institute of Valuers asset valuation standards. The valuation of land and non-operational buildings was undertaken by NAI Harcourt, registered valuers. The valuation of wharves and operational buildings was undertaken by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors.

The valuations of the independent valuers are reviewed by the POAL Group and adopted as the carrying value in the financial statements subject to any specific adjustments required. The POAL Group's 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. The valuation process was peer reviewed in the prior financial period.

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

The valuation approach is as follows:

Port Operations land - Subdivisional approach - direct sales comparison with appropriate adjustments for intensity of development, location, titles, easements and services to provide a base rate.

Freehold buildings – Where the building is leased to a third party, return on income and discounted cash flow on the market and contract rental checked by an assessment of the underlying land value. Where the building is an operational building, Depreciated Replacement Cost derived from modern equivalent asset rate.

Wharves - Depreciated Replacement Cost derived from modern equivalent asset rate.

During the financial year there were no transfers between the levels of the fair value hierarchy.

Land valuation

The valuations for land have been prepared using either market based evidence for the land or the investment approach relating to investment yield for leasehold properties.

This valuation methodology has been undertaken in order to provide an independent assessment of the current value of the assets. The valuation methodology is consistent with prior years.

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

17 Property, plant and equipment (continued)

Asset valuation approach	Assumptions	Inputs used to measure fair value	2016 Range of significant unobserved inputs	2015 Range of significant unobserved inputs
Port Operations Land - Hypothetical Subdivision Valuation A market land value model has been used which involves a sub-divisional approach whereby a direct sales comparison is made with appropriate adjustments for intensity of development, location, titles, easements and services to provide a base rate. This base rate is calculated and is applied to the land based on the assumption that if this land were available for development then a higher density, than current zoning allows, would be achieved. The land is hypothetically subdivided less the costs of sales, development, opportunity costs and profit.	Average gross realisation base rate The rate is based on site intensity and height being lower than that in the CBD because of the zoning of the port precinct.	Base rate	$4,500 per sqm, for a 2,300 sqm allotment	$4,000 per sqm, for a 2,300 sqm allotment
	The land has been broken into a number of subdivision allotments which would be released to the market over a 30 year period with assumed 5 sales per annum	Subdivision allotments	150 allotments	150 allotments
	The site development costs have been estimated based on work undertaken by a quantity surveyor	Site development costs	Development costs adjusted for cost escalation based on "Producers Price Index – Construction Sector"	Development costs as adjusted for cost escalation based on "Producers Price Index – Construction Sector"
	Sales will occur at an average of 5 allotments per annum, basic infrastructure costs will occur within the first two years with individual development of allotments taking place on a staged basis over 30 years.	Discount rate	12.50%	12.50%
		Sales price escalation	Range 2.00% to 5.00% over the term	Range 2.50% to 3.00% over the term
		Cost escalation	Range 2.55% to 3.00% over the term	Range 2.50% to 3.00% over the term

17 Property, plant and equipment (continued)

The sensitivity table below is related to the valuation of the Port Operations Land – Hypothetical Subdivision Valuation and is to show the impact of the discount rate on the valuation.

	Base rate - change per sqm				
Discount rate change	**$3,500**	**$4,000**	**$4,500**	**$5,000**	**$5,500**
12.25%	(84,463)	(37,942)	9,510	55,102	101,624
12.50%	(91,711)	(46,329)	-	44,435	89,817
12.75%	(98,699)	(54,416)	(9,170)	34,149	78,432

Asset valuation approach	Assumptions	Inputs used to measure fair value	2016 Range of significant unobserved inputs	2015 Range of significant unobserved inputs
Land and buildings associated with non-port operations	Revenue growth	Rental escalation	Rental growth increase between 0.00% to 5.00% over the term	Rental growth increase between 0.00% to 3.00% over the term
These buildings are leased to third parties and are valued on the basis of a return on income and discounted cash flow using the contract rental. This is then assessed against the underlying land value.	Operating expenses	Operating expenses escalation	Operating expenses increased between 1.50% to 3.00% over the term	Operating expenses increased between 1.50% to 2.00% over the term
	Discount rate		6.25% - 9.25%	6.25% - 9.25%
	Terminal capitalisation rate		7.25% - 10.25%	7.25% - 10.25%
	An underlying land value was applied as a check on height allowances		$2,650 per sqm to $4,000 per sqm	$2,150 per sqm to $3,250 per sqm

Port Operations wharves and buildings valuation

Port Operations wharves and buildings were revalued at 30 June 2016 by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors, as at 30 June 2016 to fair value.

The valuer's consideration has been given at the best method of assessing the current value of the Ports Operations assets being valued - market value or depreciable replacement cost – depending on the asset being valued.

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

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

17 Property, plant and equipment (continued)

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). There are various factors and assumptions made in the preparing the Gross Current Replacement Costs, these are set out as follows:

a. the gross current replacement costs are based on the replacement of the whole of each process unit or installation at one time

b. assume the projects are carried out as an Engineering Procurement Construction contract run by a main contractor who is appointed after a competitive bidding/tender submission

c. the project specification and documentation is prepared by Ports of Auckland staff and/or its appointed consultant advisors

d. indigenous New Zealand materials, labour and services are used wherever possible;

e. used straight-line depreciation methodology for the valuation of wharves, buildings, structures, civil works and support assets. This depreciation methodology is one of the methodologies recommended by the professional body The Royal Institution of Chartered Surveyors, London, to reflect the value of specialised assets.

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

Asset valuation approach	Assumptions	Inputs used to measure fair value	2016 Range of significant unobserved inputs	2015 Range of significant unobserved inputs
Port operations wharves and buildings	Depreciated replacement cost derived from modern equivalent asset rate	Wharves	100 years economic life	100 years economic life
		Wharf buildings	50 years economic life	50 years economic life
		Residual value	15% as the end of the economic life	15% as the end of the economic life
		Depreciation	Straight line	Straight line
	Unit cost of construction per sqm	Piles	$919 per sqm	$892 per sqm
	The key assumptions driving the valuation of the wharves are influenced by costs for construction materials, labour costs and general construction market trends	Wharf Platform	$1,449 per sqm	$1,406 per sqm
		Fenders	$75 per sqm	$72 per sqm
		Services	$103 per sqm	$100 per sqm
		Total	$2,546 per sqm	$2,470 per sqm

17 Property, plant and equipment (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
Unobservable inputs within hypothetical subdivision valuation and discounted cash flow model approach			
Rate per sqm	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
Terminal capitalisation rate	The rate which is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated future market value.	Decrease	Increase
Revenue growth rate	The annual growth rate applied to market rents over an assumed holding period.	Increase	Decrease
Operating expenses growth rate	The annual growth rate applied to property operating expenses over an assumed holding period.	Decrease	Increase
Unobservable inputs within the income capitalisation approach			
Gross market rent	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
Unobservable inputs within fair value – depreciated replacement cost			
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

18 Intangible assets

	1 July 2015 Cost $'000	1 July 2015 Accumulated amortisation and impairment charges $'000	1 July 2015 Carrying amount $'000	Current year additions $'000	Current year disposals $'000	Current year amortisation $'000	30 June 2016 Cost $'000	30 June 2016 Accumulated amortisation and impairment charges $'000	30 June 2016 Carrying amount $'000
Operating assets									
At cost									
Computer software	23,884	(6,684)	17,200	4,408	-	(2,614)	28,292	(9,298)	18,994
Goodwill	-	-	-	-	-	-	-	-	-
Total intangible assets	23,884	(6,684)	17,200	4,408	-	(2,614)	28,292	(9,298)	18,994

	1 July 2014 Cost $'000	1 July 2014 Accumulated amortisation and impairment charges $'000	1 July 2014 Carrying amount $'000	Prior year additions $'000	Prior year disposals $'000	Prior year amortisation $'000	30 June 2015 Cost $'000	30 June 2015 Accumulated amortisation and impairment charges $'000	30 June 2015 Carrying amount $'000
Operating assets									
At cost									
Computer software	17,745	(5,738)	12,007	6,813	(23)	(1,597)	23,884	(6,684)	17,200
Goodwill	3,300	-	3,300	-	(3,300)	-	-	-	-
Total intangible assets	21,045	(5,738)	15,307	6,813	(3,323)	(1,597)	23,884	(6,684)	17,200

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).

19 Investments in subsidiaries (continued)

All subsidiaries are incorporated in New Zealand, except West Tugz Pty Limited which is incorporated in Australia.

All subsidiaries have a balance date of 30 June.

Name of entity	Principal activity	Equity holding 2016 %	Equity holding 2015 %
Airport Shares (Auckland) Limited	Investment	-	100
Airport Shares (Manukau) Limited	Investment	-	100
Auckland Film Studios Limited	Film Studio	100	100
Ports of Auckland Limited	Port Operator	100	100
Bunker Shipz Limited	Management Services	100	100
West Tugz Pty Limited	Non-trading	-	100
Seafuels Limited (former joint venture - note 35)	Port Operator	100	100
Waikato Freight Hub Limited	Non-trading	100	-

Amalgamation of Airport Shares (Auckland) Limited and Airport Shares (Manukau) Limited

On 31 May 2016 two of the Parent's subsidiaries, Airport Shares (Auckland) Limited and Airport Shares (Manukau) Limited ('the Subsidiaries') were amalgamated into the Parent. The Subsidiaries together carried 22.4% of the shares in Auckland International Airport Limited.

Under the amalgamation, the Parent took control of all the assets of the Subsidiaries and assumed responsibility for their liabilities. The Subsidiaries have been removed from the New Zealand register of companies.

The assets and liabilities have been brought into the Parent's financial statements at their carrying amounts.

Subsequent to the amalgamation and on consolidation, the Company has recognised the investment on an equity accounted basis and the gain on amalgamation has been eliminated. Consequently, the amalgamation has had no effect on the Company's results on consolidation.

Subsidiary acquisitions

At the end of the prior financial period 30 June 2015, the POAL Group acquired the remaining 50% of shares in Seafuels Limited for $1,465,000, leading to Seafuels Limited becoming a wholly owned subsidiary of the Group. Seafuels Limited provides a refuelling service for cruise ships, commercial and container ships calling at the Ports of Auckland, and was previously a joint venture between Ports of Auckland and PB Bunkers (BVI) Limited.

20 Available-for-sale financial assets

	2016 $'000	2015 $'000
Balance at beginning of the year	23,424	24,821
(Loss)/gain on revaluation recognised (note 28(a))	1,808	(1,397)
Balance at end of the year	25,232	23,424
Listed securities	25,232	23,424

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 37.

21 Payables

	2016 $'000	2015 $'000
Current		
Trade payables	10,381	12,658
Accrued expenses	11,352	15,637
Amounts due to related parties (note 33)	8,287	8,461
Revenue in advance	335	22
Total current payables	30,355	36,778
Non-current		
Revenue in advance	623	645
Total non-current payables	623	645
Total payables	30,978	37,423

The carrying value of payables approximates their fair value.

22 Employee entitlements

	2016 $'000	2015 $'000
Current portion		
Annual leave	4,435	4,843
Accrued salaries and wages	2,099	2,903
Long service leave	396	446
Total current employee entitlements	6,930	8,192
Non-current		
Long service leave	1,170	1,351
Total non-current employee entitlements	1,170	1,351
Total employee entitlements	8,100	9,543

23 Derivative financial instruments

	2016 $'000	2015 $'000
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	2,701	-
Interest rate swaps - cash flow hedges	882	534
Total current derivative financial instrument liabilities	3,583	534
Non-current liabilities		
Forward foreign exchange contracts - cash flow hedges	399	-
Interest rate swaps - cash flow hedges	11,107	6,342
Total non-current derivative financial instrument liabilities	11,506	6,342
Total net derivative financial instruments	15,089	6,876

23 Derivative financial instruments (continued)

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 37).

All derivatives are designated as hedging instruments.

(a) Interest rate swap contracts - cash flow hedges

Bank loans of the POAL Group currently bear a weighted average variable interest rate of 3.00% (2015: 4.14%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Company 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 57% (2015: 68%) 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% (2015: 3.52% and 5.79%) and the maturity dates range between 21 December 2016 and 21 June 2026.

During the current financial year several new interest rate swap contracts were put in place with start date 21 June 2016 . This equates to 7.00% 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 2016 the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2016 $'000	2015 $'000
Less than 1 year	65,000	50,000
1 - 2 years	15,000	65,000
2 - 3 years	40,000	15,000
3 - 4 years	10,000	40,000
4 - 5 years	40,000	10,000
Greater than 5 years	55,000	80,000
Total	225,000	260,000

(b) Forward exchange contracts - cash flow hedges

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

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when the payment for the purchase of major component parts fall due.

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

At 30 June 2016, the POAL Group had outstanding forward exchange contracts equivalent to $52,230,000 (2015: $nil) for three quay cranes.

Where forward exchange contracts have been designated and tested as an effective hedge, the portion of the gain or loss on the hedged instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the POAL Group adjusts the initial measurement of the component recognised in the consolidated statement of financial position by the related amount deferred in equity. The ineffective portion is recognised in surplus or deficit immediately.

24 Borrowings

	2016 $'000	2015 $'000
Current		
Bank overdrafts	8,786	7,929
Revolving cash advances facility	-	45,000
Redeemable preference shares	-	125,000
Loans from related parties (note 33)	-	158,000
Total current borrowings	8,786	335,929
Non-current portion		
Loans from related parties (note 33)	-	16,000
Revolving cash advances facility	246,767	160,000
Total non-current borrowings	246,767	176,000
Total borrowings	255,553	511,929

(a) Bank overdraft

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

(b) Redeemable preference shares

On 21 September 2015 the Group redeemed the 125 redeemable preference shares with the funding provided by Auckland Council.

(c) Loans from related parties

On 1 June 2016, ACIL issued one share to its shareholder, Auckland Council, as a repayment for, and in discharge in full of, all amounts owed by ACIL to Auckland Council. The carrying value of the debt owed to Auckland Council at the time was $299,000,000. The substance of the transaction was that of a capital contribution equal to the debt 'forgiven' by Auckland Council.

(d) Revolving cash advances facility

POAL signed a revolving advances facility agreement on 27 July 2015. 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 duration.

At 30 June 2016 and 30 June 2015, POAL Group had in place a revolving advances facility, that is subject to a negative pledge deed dated 29 July 2015 (2015: 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). This 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. The POAL group borrows under a negative pledge arrangement which requires certain certificates and covenants. The negative pledge deed sets out a minimum interest cover requirements (1.50:1.00) and a maximum gearing ratio percentage requirement (65%). There have been no breaches of this negative pledge during the financial year.

24 Borrowings (continued)

Fair value

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. The interest rate is based on BKBM (bank bill bid settlement) rate plus a margin range of 0.45% to 0.77% per annum (2015: 0.55% to 1.15% per annum). The POAL Group generally borrows funds on a 90 days term (2015: 90 days term).

The carrying amounts of the current and non-current liabilities approximate their fair values as all debt amounts are based on either floating interest rates or short term (90 days or less) fixed rates.

Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 37.

25 Deferred tax liabilities

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Cashflow hedges	(4,280)	(1,935)
Property, plant and equipment	65,671	63,802
Investment property	616	383
Intangible assets	2,055	466
Provisions	(3,310)	(5,443)
Deferred revenue	2,256	2,284
Tax losses	-	(253)
Total deferred tax liabilities	63,008	59,304

	2016 $'000	2015 $'000
Deferred tax assets to be settled within 12 months	(465)	(7,965)
Deferred tax assets to be settled after more than 12 months	(3,102)	-
Deferred tax liabilities to be settled after more than 12 months	66,575	67,269
	63,008	59,304

25 Deferred tax liabilities (continued)

	Cashflow hedges $'000	Other $'000	Property, plant and equipment $'000	Investment property $'000	Intangible assets $'000	Provisions $'000	Deferred revenue $'000	Tax losses $'000	Total $'000
As at 1 July 2015	(1,935)	-	63,802	383	466	(5,443)	2,284	(253)	59,304
Acquisition/disposal of subsidiary	-	-	-	-	-	-	-	-	-
Charged/(credited) to the statement of comprehensive revenue and expense	-	-	(364)	233	1,589	2,133	(28)	253	3,816
(Credited)/charged to other comprehensive revenue and expense (notes 28(a))	(2,345)	-	2,233	-	-	-	-	-	(112)
As at 30 June 2016	(4,280)	-	65,671	616	2,055	(3,310)	2,256	-	63,008
As at 1 July 2014	(548)	-	57,917	289	216	(4,043)	2,284	-	56,115
Acquisition/disposal of subsidiary	-	-	1,573	-	-	(50)	-	(253)	1,270
Charged/(credited) to the statement of comprehensive revenue and expense	-	-	(1,123)	94	250	(1,350)	-	-	(2,129)
(Credited)/charged to other comprehensive revenue and expense (notes 28(a))	(1,387)	-	5,435	-	-	-	-	-	4,048
As at 30 June 2015	(1,935)	-	63,802	383	466	(5,443)	2,284	(253)	59,304

26 Provisions

	2016 $'000	2015 $'000
ACC partnership programme	292	296
Other provisions (note 2(v))	784	2,811
	1,076	3,107

ACC partnership programme

Liability valuation

An independent actuarial valuer (AON New Zealand) has calculated the Group's liability, as at 30 June 2016. 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 2016 produced a value for the ACC reserve of $291,700 (2015: $295,700). Pre valuation date claim inflation has been taken as 50% (2015: 50%) of movements in the CPI and 50% (2015: 50%) of the movements in the Average Weekly Earnings (AWE) Index. Post valuation date claim inflation has been taken as 1.7% per annum (2015: 2.1% per annum). A discount rate of 4.2% per annum (2015: 3.0% per annum) has been used.

The Group 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

	2016 $'000	2015 $'000
(a) Share capital		
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	-
	1,017,881	718,881

(b) Ordinary shares

As at 30 June 2016 there were 1,001 ordinary shares (2015: 1,000) 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.

See note 24 (c) for further information in relation to the issuing of the additional share.

28 Reserves and accumulated funds

	2016 $'000	2015 $'000
(a) Reserves		
Property, plant and equipment revaluation reserve	146,496	64,734
Hedging reserve - cash flow hedges	(3,235)	2,679
Share of equity accounted investments reserves	452,274	284,534
Available-for-sale investments reserve	11,260	9,452
	606,795	361,399

28 Reserves and accumulated funds (continued)

Property, plant and equipment revaluation reserve		
Balance at beginning of the year	**64,734**	50,759
Revaluation (note 17)	**83,995**	19,410
Deferred tax	**(2,233)**	(5,435)
Balance at 30 June	**146,496**	64,734
Hedging reserve - cash flow hedges		
Balance at beginning of the year	**2,679**	6,219
Fair value movements	**(10,564)**	(6,454)
Transfer to surplus	**2,305**	1,527
Deferred tax	**2,345**	1,387
Balance at 30 June	**(3,235)**	2,679
Share of equity accounted investments reserves		
Balance at beginning of the year	**284,534**	268,721
Share of associate's movement in reserves (note 16)	**167,740**	15,813
Balance at 30 June	**452,274**	284,534
Available-for-sale investments reserve		
Balance at beginning of the year	**9,452**	10,849
Revaluation - gross (note 20)	**1,808**	(1,397)
Balance at 30 June	**11,260**	9,452

(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.

	2016 $'000	2015 $'000
(c) Accumulated funds		
Balance at beginning of the year	**24,882**	(12,335)
Transfers of tax balances for nil consideration	**11,542**	2,120
Surplus for the year	**121,745**	110,697
Dividends (note 29)	**(66,500)**	(75,600)
Balance at end of the year	**91,669**	24,882

29 Dividends

	2016 $'000	2015 $'000
A dividend of $66,434 (in whole dollars) per fully paid share was paid on 30 June 2016 (2015: $75,600 (in whole dollars) per fully paid share was paid on 30 June 2015)	**66,500**	75,600

The dividends are fully imputed.

30 Capital commitments and operating lease commitments

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

	2016 $'000	2015 $'000
(a) Capital commitments		
Property, plant and equipment	**35,335**	10,771
Intangible assets	**-**	700
Investment property	**9,698**	10,609
Total capital commitments	**45,033**	22,080

(b) Operating lease commitments

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

	2016 $'000	2015 $'000
Non-cancellable operating leases as lessee		
Within one year	**647**	646
Between one and five years	**1,675**	2,322
Total non-cancellable operating leases	**2,322**	2,968

The POAL 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:

	2016 $'000	2015 $'000
Non-cancellable operating leases as lessor		
Within one year	**6,689**	8,303
Between one and five years	**14,974**	19,547
More than five years	**36,772**	45,868
Total non-cancellable operating leases	**58,435**	73,718

No contingent rents have been recognised (2015: 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.

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

	2016 $'000	2015 $'000
Surplus after tax	**121,745**	110,697
Add/(less) non-cash items:		
Share of associate and joint venture's surplus	**(62,723)**	(53,998)
Dividends from associates and joint ventures	**44,227**	40,170
Depreciation and amortisation expense	**24,416**	21,058
Reversal of prior period impairment	**(7,656)**	(23,470)
Impairment of property, plant and equipment (reversed)	**(1,421)**	-
Impairment of investment in joint ventures	**2,614**	285
Deferred tax expense	**3,816**	(2,129)
Current tax expense	**11,891**	-
Movement in fair value of investment property	**(12,213)**	(359)
Other	**(314)**	44
Add/(less) items classified as investing or financing activities:		
Net loss on disposal of non-current assets and other investments	**(127)**	1,234
Movements in borrowings allocated to interest paid	**(269)**	116
Net capital items included in working capital movements	**1,949**	(6,931)
Add/(less) movements in working capital:		
Receivables	**(12,728)**	8,801
Inventories	**401**	(321)
Payables	**(3,736)**	11,392
Provisions	**(2,031)**	2,818
Tax payable	**(2,298)**	(1,822)
Employee benefits	**(1,443)**	716
Transfers of tax balances	**-**	2,120
Deferred tax liability on acquisition of subsidiary	**-**	(1,270)
Net cash inflow/(outflow) from operating activities	104,100	109,151

32 Contingent assets and liabilities

As at 30 June 2016 the Company had no contingent liabilities (2015: $Nil).

Ports of Auckland Limited has a performance bond of $810,000 (2015: $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 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 16(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

33 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 16.

	2016 $'000	2015 $'000
Transactions with related parties:		
Auckland Council		
Services provided to Auckland Council Investments Limited	**(101)**	(175)
Management fee paid to Auckland Council Investments Limited	**-**	83
Interest paid by Auckland Council Investments Limited	**(12,554)**	(9,628)
Dividends paid by Auckland Council Investments Limited	**(66,500)**	(75,600)
Services provided to Ports of Auckland Limited	**1,190**	1,643
Tax losses gifted to Ports of Auckland Limited and Auckland Film Studios Limited	**11,542**	2,120
	(66,423)	(81,557)
Entities under common control		
Services provided by Ports of Auckland Limited	**444**	325
Services provided to Ports of Auckland Limited	**1,552**	317
Subvention payment to Watercare Services for tax losses	**5,368**	8,450
	7,364	9,092
Associates and joint ventures		
Services provided by Ports of Auckland Limited	**3,020**	2,618
Services provided to Ports of Auckland Limited	**776**	438
Net dividends received	**44,227**	40,170
Return on capital received	**-**	-
Advances	**70**	1,509
Advance repayments	**100**	3,863
	48,193	48,598

	2016 $'000	2015 $'000
Outstanding related party balances at year-end are as follows:		
Current receivables		
Auckland Council	**5,236**	1,283
Entities under common control	**33**	24
Associates and joint ventures	**2,055**	1,103
	7,324	2,410
Non-current receivables		
Associates and joint ventures	**3,408**	3,438
	3,408	3,438
Current payables and borrowings		
Auckland Council payables	**2,785**	246
Auckland Council borrowings	**-**	158,000
Entities under common control	**5,399**	8,127
Associates and joint ventures	**103**	88
	8,287	166,461

33 Related party transactions (continued)

Non-current payables and borrowings

Auckland Council	-	16,000
	-	16,000

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

Auckland International Airport Limited (AIAL)

The Group received an ordinary dividend during the year of $42,079,968 (2015: $38,085,000) from AIAL which was treated as a decrease in investment in the Group.

34 Remuneration

	2016 $'000	2015 $'000
Directors	**696**	741
Senior Management Team, including the Chief Executive	**3,721**	3,606
Number of full-time equivalent senior management team	***10***	*9*

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 Ports of Auckland Limited.

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

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

	2016 Whole dollars	2015 Whole dollars
Keith Taylor - Commenced 1 November 2015	**47,367**	-
Hinerangi Raumati - Commenced 1 November 2015	**23,683**	-
Linda Robertson - Commenced 1 November 2015	**23,683**	-
Simon Allen - Ceased 31 October 2015	**23,683**	71,050
Miriam Dean - Ceased 31 October 2015	**14,802**	44,406
Candis Craven - Ceased 31 October 2015	**11,842**	35,525
Brian Corban - Ceased 31 October 2015	**11,842**	35,525
Diana Puketapu - Ceased 31 October 2015	**11,842**	35,525
Graeme Hawkins - Ceased 1 August 2015	**10,000**	115,833
Andrew Bonner	**60,000**	57,917
Elizabeth Coutts	**99,165**	67,914
Patrick Snedden	**60,000**	57,917
Wayne Walden	**60,000**	57,917
Rodger Fisher	**100,000**	57,917
Jonathon Mayson	**60,000**	44,166
James Hill	**44,500**	35,875
Alan Sorrell	**34,000**	23,500
	696,409	740,987

34 Remuneration (continued)

The number of employees paid more than $100,000 annually is as follows:	2016	2015
$100,000 - $120,000	**88**	76
$120,001 - $140,000	**37**	39
$140,001 - $160,000	**24**	23
$160,001 - $180,000	**12**	6
$180,001 - $200,000	**4**	6
$200,001 - $220,000	**4**	1
$220,001 - $240,000	**2**	3
$240,001 - $260,000	**3**	3
$260,001 - $280,000	**3**	1
$280,001 - $300,000	**2**	3
$300,001 - $320,000	**2**	1
$320,001 - $340,000	**1**	1
$340,001 - $360,000	**1**	2
$360,001 - $380,000	-	2
$380,001 - $400,000	-	-
$400,001 - $420,000	**1**	-
$800,000 - $820,000	**1**	1
	185	168

35 Business combinations

Acquisition of Seafuels Limited

At the end of the prior financial period, 30 June 2015, the POAL Group acquired the remaining 50% of shares in Seafuels Limited for $1,465,000, leading to Seafuels Limited becoming a wholly owned subsidiary of the Group. Seafuels Limited provides a refuelling service for cruise ships, commercial and container ships calling at the Ports of Auckland, and was previously a joint venture between Ports of Auckland and PB Bunkers (BVI) Limited.

The fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	2016 $'000	2015 $'000
Fair value of net identifiable assets acquired (refer below)		
Cash and cash equivalents	-	**3,070**
Trade and other receivables	-	**26**
Property, plant and equipment	-	**17,926**
Trade and other payables	-	**(644)**
Shareholder advances	-	**(15,080)**
Deferred tax liabilities	-	**(1,269)**
Total identifiable net assets	-	**4,029**
Purchase price for 50% share	-	**1,465**
Carrying value of initial investment of shares	-	**3,334**
	-	**(770)**

As the acquisition date was 30 June 2015, which is the Group's financial year end, no income or profit / loss relating to Seafuels Limited has been recognised within the income statement in the current year.

36 Events occurring after the balance date

On 22 August 2016, subsequent to year end the Board of Directors of the POAL Group resolved to pay an unimputed dividend of 19.46 cents per ordinary share, a total of $28,413,000. The dividend will be paid on 26 August 2016.

The Board of Directors of the POAL Group subsequent to year end has approved a project to partially automate the container terminal. Final contracts for this project will be signed in due course.

37 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 and AFSL. 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. AFSL's risk management is performed by the directors who monitor the capital structure and risk profile on a semi-annual basis.

Carrying amount and fair value of financial assets and liabilities		**Carrying amount**		**Fair value**	
		2016	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000
Financial assets					
Cash and cash equivalents	11	**5,996**	7,907	**5,996**	7,907
Receivables	12	**39,681**	26,430	**39,681**	26,430
Available-for-sale financial assets	20	**25,232**	23,424	**25,232**	23,424
Total financial assets		**70,909**	57,761	**70,909**	57,761
Financial liabilities					
Payables	21	**(30,020)**	(36,756)	**(30,020)**	36,756
Employee entitlements	22	**(8,100)**	(9,543)	**(8,100)**	9,543
Borrowings	24	**(255,553)**	(511,929)	**(255,553)**	(511,387)
Derivative financial liabilities	23	**(15,089)**	(6,876)	**(15,089)**	(6,876)
Total financial liabilities		**(308,762)**	(565,104)	**(308,762)**	(471,964)
Net financial assets (liabilities)		**(237,853)**	(507,343)	**(237,853)**	(414,203)

Cash is cash at bank which is a financial asset under PBE IPSAS 29.

(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).

37 Financial risk management (continued)

(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.

(iii) Cash flow and interest rate risk

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 2016		30 June 2015	
Movement in interest rate:	**Weighted average interest rate %**	**Balance $'000**	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	**3.0**	**255,786**	4.1	212,929
Interest-rate swaps (notional principal amount)	**4.5**	**225,000**	4.8	260,000

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 24.

(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.

37 Financial risk management (continued)

30 June 2016	Carrying amount	Interest rate risk				Foreign exchange risk				Other price risk			
		-1%		+1%		-10%		+10%		-5%		+5%	
	$'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000
Financial assets													
Cash and cash equivalents	5,996	(59)	(55)	59	55	-	-	-	-	-	-	-	-
Receivables	39,681	-	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	25,232	-	-	-	-	-	-	-	-	-	(1,262)	-	1,262
Financial liabilities													
Derivatives - cash flow hedges	15,089	-	6,004	-	(6,004)	-	-	-	-	-	-	-	-
Payables	30,020	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	255,553	1,158	-	(1,158)	-	-	-	-	-	-	-	-	-
Employee entitlements	8,100	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		1,099	5,949	(1,099)	(5,949)	-	-	-	-	-	(1,262)	-	1,262

30 June 2015	Carrying amount	Interest rate risk				Foreign exchange risk				Other price risk			
		-1%		+1%		-10%		+10%		-10%		+10%	
	$'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000	Surplus $'000	Equity $'000
Financial assets													
Cash and cash equivalents	7,907	(42)	-	42	-	-	-	-	-	-	-	-	-
Receivables	26,430	-	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	23,424	-	-	-	-	-	-	-	-	-	(1,171)	-	1,171
Financial liabilities													
Derivatives - cash flow hedges	6,876	-	6,007	-	(5,631)	-	-	-	-	-	-	-	-
Payables	36,756	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	511,929	729	-	(729)	-	-	-	-	-	-	-	-	-
Employee entitlements	9,543	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		687	6,007	(687)	(5,631)	-	-	-	-	-	(1,171)	-	1,171

(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.

37 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 customers who wish trade on credit terms are 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 59% (2015: 54%) of trade receivables at balance date is reflected by the Group's ten largest customers. At balance date approximately 12% (2015: 9%) 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 3 months $'000	3 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount $'000
2016							
Non-derivatives							
Payables	30,020	-	-	-	-	30,020	30,020
Variable rate loans *	8,786	7,478	56,161	200,360	-	272,785	255,553
Employee entitlements	8,100	-	-	-	-	8,100	8,100
Total non-derivatives	46,906	7,478	56,161	200,360	-	310,905	293,673
Derivatives							
Net settled (interest rate swaps)	1,422	1,680	3,048	6,310	339	12,799	15,089
Gross settled (forward exchange contracts)							
- (inflow)	(30,867)	(12,938)	(5,287)	-	-	(49,092)	-
- outflow	32,944	13,589	5,697	-	-	52,230	-
Total derivatives	3,499	2,331	3,458	6,310	339	15,937	15,089

	Less than 3 months $'000	3 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount $'000
2015							
Non-derivatives							
Payables	35,800	477	-	-	-	36,277	36,756
Borrowings	-	287,388	16,486	-	-	303,874	299,000
Variable rate loans *	51,941	18,277	118,030	36,175	-	224,423	212,929
Financial guarantee contracts	4,175	-	-	-	-	4,175	-
Employee entitlements	9,543	-	-	-	-	9,543	9,543
Total non-derivatives	101,459	306,142	134,516	36,175	-	578,292	558,228

37 Financial risk management (continued)

Derivatives							
Net settled (interest rate swaps)	1,067	926	1,899	3,399	57	7,348	(6,876)
Total derivatives	1,067	926	1,899	3,399	57	7,348	(6,876)

* 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
30 June 2016				
Financial assets				
Available-for-sale financial assets	25,232	-	-	25,232
Total financial assets	25,232	-	-	25,232
Financial liabilities				
Derivatives used for hedging	-	15,089	-	15,089
Total financial liabilities	-	15,089	-	15,089

30 June 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Available-for-sale financial assets	23,424	-	-	23,424
Total assets	23,424	-	-	23,424
Liabilities				
Derivatives used for hedging	-	6,876	-	6,876
Total liabilities	-	6,876	-	6,876

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:

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37 Financial risk management (continued)

- 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

Assets	At fair value through profit or loss $'000	Loans and receivables $'000	Available for sale $'000	Total $'000
30 June 2016				
Cash and cash equivalents	-	5,996	-	5,996
Receivables (excluding GST receivable and prepayments)	-	39,681	-	39,681
Available for sale financial assets	-	-	25,232	25,232
	-	45,677	25,232	70,909
30 June 2015				
Cash and cash equivalents	-	7,907	-	7,907
Receivables (excluding GST receivable and prepayments)	-	26,430	-	26,430
Available for sale financial assets	-	-	23,424	23,424
	-	34,337	23,424	57,761

Liabilities	Derivatives for hedging $'000	Measured at amortised cost $'000	Total $'000
30 June 2016			
Payables	-	30,020	30,020
Employee entitlements	-	8,100	8,100
Borrowings	-	255,553	255,553
Derivative financial instruments	15,089	-	15,089
	15,089	293,673	308,762
30 June 2015			
Payables	-	36,756	36,756
Employee entitlements	-	9,543	9,543
Borrowings	-	511,929	511,929
Derivative financial instruments	2,927	-	2,927
	2,927	558,228	561,155

38 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 (2015: 1.50 : 1.00); and
- maximum gearing ratio of 65% (2015: 65%).

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

Statement of service performance

For the year ended 30 June 2016

During the year, ACIL operated in accordance with the 2015-2018 Statement of Intent (SOI). The progress against the SOI targets is summarised below.

Auckland Council Investments Limited Semi Group

Output	Performance Measure	Performance Target	Results/Commentary	Target met
ACIL generates financial returns for the Council by acting commercially, within the constraints of the Accountability Policy	Operating Surplus after Tax of the ACIL semi-group	$63.4 million	$69.0 million	✓
	Return on Equity	7.0%	The actual RoE was 21.4%. The increase in RoE is mainly due to large gains from asset revaluations at both AIAL and POAL, and to a lesser extent increased dividends from these companies. The RoE target includes revaluation gains. However, the magnitude of revaluation gains in 2016 is significantly above the target. Excluding revaluations, the 2016 RoE was 8.0%.	✓
ACIL distributes financial returns to the Council by acting commercially, within the constraints of the Accountability Policy	Dividend Distributions	$63.4 million	$66.5 million	✓
ACIL monitors 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.	✓
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.	✓

During the year ASAL and ASML holding shares in AIAL were amalgamated into the parent company ACIL. ACIL Semi Group includes the consolidation of ASML and ASAL but does not include the consolidation of POAL and AFSL and equity accounting for AIAL.

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

Ports of Auckland Limited Group

Output	Performance Measure	Performance Target	Results/Commentary	Target met
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	There were no new appointments to the POAL Board during the year. Auckland Council was consulted regarding proposed appointments which occurred after year end.	✓
Progress towards the target of increasing financial returns from POAL is closely monitored	Return on Equity	ROE increases to 11.4% by 30 June 2016	15.6%	✓

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

Auckland International Airport Limited

Output	Performance Measure	Performance Target	Results/Commentary	Target met
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 2015.	✓
	Advise Council on proposed decisions/motions	Council is kept fully informed about proposed decisions/motions	The Council was kept informed about AIAL's AGM resolutions.	✓

Auckland Film Studios Limited

Output	Performance Measure	Performance Target	Results/Commentary	Target met
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	There were no new appointments to the AFSL Board during the year.	✓
Progress against AFSL's target to at least break-even is closely monitored	AFSL's Net Profit After Tax (NPAT)	NPAT is positive	$0.8 million	✓

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Auckland Council Investments

An Auckland Council Organisation