

Auckland Council Investments Ltd

Quarterly Report

Quarter ended 31 December 2017

CCO Governance and Monitoring Committee

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1. Executive Summary

The ACIL parent recorded an after tax surplus of \$53.7m for the six months to 31 December 2017, \$8.1m higher than the YTD budget (\$45.6m). This was mainly due to the higher than planned POAL dividend of \$26.1m (which included a tax benefit of \$9.2 m) vs. budget of \$19.1m.

AIAL paid ACIL a final dividend for the 2016/17 year of \$27.9m on 20 October 2017, which was \$0.8m higher than the budget (\$27.1m).

The AIAL share price decreased from \$7.13 (30 June 2017) to \$6.48 (31 December 2017), leading to a \$173m drop in the value of shares owned by ACIL.

ACIL sold its shares in Auckland Film Studios Limited to Auckland Council on 3 October 2017 for \$22.5m, which was the book value of the company. It immediately paid Auckland Council a dividend of the same amount.

2. Strategic issues and focus areas

ACIL is focussed on achieving the targets outlined in ACIL's 2017/20 SOI.

In particular:

- maintaining its governance role and responsibility; and
- encouraging initiatives to increase returns balanced by sound management of risk; and
- working with POAL to ensure commercial objectives take account of stakeholder interests; and
- seeking to optimise the value of AFSL by working with the Council, ATEED and AFSL to determine the long term future of AFSL. Note that ACIL's SOI will be modified and this target removed as a consequence of the sale of AFSL to Auckland Council.

3. Highlights for the last quarter

Auckland International Airport Limited (AIAL)

AIAL paid a final dividend for the year ending 30 June 2017 of \$27.9m on 20 October 2017, which was \$0.8m higher than the budget (\$27.1m).

The AIAL share price has decreased from \$7.13 (30 June 2017) to \$6.48 (31 December 2017), a drop of value of \$173m in market value for the quarter. As at 31 December 2017, the market value of ACIL's investment in AIAL was \$1.7 billion.

Auckland Airport exceeded one million international passengers (excluding transits) in a single calendar month for the first time. This was a 5.5% increase compared to December 2016 and was driven by increased capacity on Asia/Middle eastern routes (+55,000 seats), Americas (+16,000 seats) and the Pacific (+9,000 seats)

In the same vein, 2017 was a record year for international passengers (excluding transits) with more than 10 million passengers for the calendar year for the first time. There was a 7.9% increase in international passengers compared to 2016.

Ports of Auckland Limited (POAL)

Features for the quarter include:

- Overall POAL volumes were above last year by 3% however below YTD budget by -1.2%.
- For the six months to December 2017 Ports revenue was up on last year and YTD budget with higher container, breakbulk and car volumes. YTD revenue includes Nexus and Conlinxx revenue consolidation subsequent to purchase in May 2017.
- YTD operating costs are above last year due to consolidation of Nexus and Conlinxx costs, higher repair costs on 'Awanuia', higher wages with increased volumes, and increases in supply chain, legal and professional costs.
- POAL has spent \$69m on capex projects for the six months to December 2017, being \$17m behind the YTD budget (\$86m). The full year capex budget is \$184m, but there are expected delays in capex delivery.
- Capex budget on three quay cranes for the Fergusson North wharf has been shifted to FY19 due to delays in project commencement. This is due to a challenge to the unitary plan on height restrictions.
- Capex budget for Fergusson North reclamation has been deferred to FY19.
- The Wiri inland freight hub has seen its full year forecast increased above budget with an increased spend on the cross-dock and an unbudgeted spend adding a blast freezer to the Polar Cold facility.
- The Lost Time Injury rate was zero for the quarter ended 31 December 2017 (one for the same quarter last year). A contractor management module is being added to the PortSafe system to allow POAL to better manage and monitor health and safety of contractors under the new legislation.

Auckland Film Studios Limited

During the first quarter of 2017/18, Auckland Council requested that ACIL transfer its shares in AFSL to the Council, who would then undertake a restructure of the company in conjunction with Panuku and ATEED.

Consequently, ACIL sold its shares in Auckland Film Studios Limited to Auckland Council on 3 October 2017 for \$22.5m. This represented a surplus of approx. \$9m above contributed equity.

4. Future outlook

ACIL currently expects to meet its 2017/18 budgeted dividend payment to Auckland Council of \$91.2m.

The ACIL Board will review its dividend forecast during the next quarter.

5. Key Deliverables

Key deliverables from last quarter

Deliverable	\$'m	Completed/ carry over to next quarter/ deferred	Status	Comments
On-going monitoring of wholly owned subsidiaries	N/A	On going		Regularly meet with the Chair and Chief Executive of POAL and AIAL
Council reporting requirements	N/A	Completed		ACIL Q2 reporting pack submitted to Council on time.
2018 -2028 LTP	N/A	On going		ACIL will closely work with POAL AIAL and Council on the LTP process
December quarterly CCO report	N/A	Completed		ACIL Q2 CCO report submitted to Council on time.

*RAG Status:

- Green - Performance on target or better
- Amber - Target may not be met, corrective action taken
- Red - Target may not be met, action required

Key deliverables for next quarter (4-6 key items)

Deliverable	Comments
2018 – 2028 LTP	Lead POAL and AIAL and assist Council in the LTP process
2018 - 2021 SOI	To submit draft SOI to Council on time
Quarterly statutory financial reporting	To complete quarterly reporting tasks on time
Budget to SAP	Cooperate with Council in completing the project
Holly 3 project (Financial reporting)	Cooperate with Council in doing consolidation in SAP and implementing Holly for ACIL
Provide information on proposal to dis-establish ACIL	Co-operate with Council officials by providing information and other items relating to the Mayoral proposal to dis-establish ACIL

6. Financial Performance

\$'m	ACIL Parent Actual YTD 31 Dec 2017	ACIL Parent Budget YTD 31 Dec 2017	Variance	ACIL Parent Full year Budget 2018	ACIL Parent Full year Forecast 2018
<u>Operational</u>					
Revenue	54.1	46.3	7.8	92.5	92.5
AC funding	0.0	0.0	0.0	-	-
Expenditure excluding interest	0.4	0.7	0.3	1.3	1.3
Interest expense	0.0	0.0	0.0		
Net surplus after tax	53.7	45.6	8.1	91.2	91.2
Dividend to Council	22.5	0.0	22.5	91.2	91.2
<u>Capital</u>					
Expenditure	-	-	-	-	-
AC funding	-	-	-	-	-
External funding	-	-	-	-	-

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7. Performance measures

Key performance measures

Measure	Year-end target	On track	Last Actual
Operating Surplus after Tax of the ACIL parent	\$91.2m	Expected to meet target	\$103.4m
Return on Equity	5.9%	Expected to meet target	10.3%
Dividend Distributions	\$91.2m	Expected to meet target	\$85.9m
Quarterly report to the Accountability and Performance Committee	The quarterly report is provided within specified timeframes and meets requirements of the SEG	Expected to meet target	Target met
Timely consideration of relevant information with regard to candidates for POAL director appointments	Competent Directors are appointed	POAL is considered to have competent directors.	POAL is considered to have competent directors.
POAL's Return on Equity	9.1%	Expected to meet target	10.0%
Exercise voting rights in AIAL on all decisions/motions requiring shareholder input	Voting rights are exercised	Expected to meet target	ACIL exercised its voting rights at the AIAL ASM in October 2017.

* includes revaluations

8. Contribution to Māori outcomes

ACIL's management of strategic assets provides financial returns to the Auckland Council which can be used by the council to deliver services and programmes, including services and programmes of particular benefit to Maori.

ACIL is a member of Te Toa Takatini -Maori Responsiveness High Performance Council established by Council's executive leadership group. ACIL has encouraged POAL and AFSL to develop knowledge of and support Council's policies and contribution to Maori wellbeing.

POAL donated a port security van to the Ngati Whatua Orakei Community patrol to assist them in keeping their community safe. POAL are also working with Ngati Whatua Orakei to re-site the stone of remembrance marking the 1840 gift of land to the British to allow the founding of Auckland.

9. Key Local Board issues

ACIL has offered to meet all Local Boards and advisory boards to provide them with a presentation on ACIL's performance and objectives.

10. Risk Management

- i. ACIL follows and applies Auckland Council's Enterprise Risk Management Framework. ACIL management is responsible for identifying, assessing, controlling and managing risks. The risks are identified in a risk register showing for each risk, its consequence and likelihood on a scale of 1 to 5 which enables a risk score and risk rating to be identified. The risk register is reviewed by the board. Risks are those events which if they occur will result in loss to the organisation. Losses may be financial, reputational, reduction in efficiency or effectiveness etc.
- ii. There has been no change in ACIL's approach to risk management.
- iii. There are no outstanding internal or external audit issues.
- iv. All controls are operating effectively. No events have occurred or are anticipated that will have a financial impact on the Council Group.
- v. All controls are operating effectively and currently no events have occurred at a senior management or governance level that would impact on the wellbeing or reputation of ACIL or Auckland Council.