Auckland Council Investments Ltd

Quarterly Report

Quarter ended 30 September 2017

CCO Governance and Monitoring Committee

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1. Executive Summary

The ACIL Group recorded an after tax surplus of $144.9m for the 2016/17 financial year ending 30 June 2017, which was $47.3m higher than the budget of $97.6m. The previous year's result was $129.7m. A dividend of $85.9m was paid to Council (budget $85.9m, previous year $66.5m) on 30 June 2017.

POAL paid ACIL a final dividend for the 2016/17 year of $26.1m on 31 August 2017, which was $7.0m higher than budget ($19.1m).

AIAL has announced a final dividend for the year ending 30 June 2017 of 10.5 cents per share compared with the final dividend of 9.0 cents per share in the previous financial year, an increase of 16.7%. The final dividend is imputed at the company tax rate of 28% and will be paid in October 2017.

The AIAL share price decreased from $7.13 (30 June 2017) to $6.44 (30 September 2017), leading to a $183.8m 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)

The AIAL share price has decreased from $7.13 (30 June 2017) to $6.44 (30 September 2017), a drop of value of $183.8m in market value for the quarter. As at 30 September 2017, the market value of ACIL's investment in AIAL was $1.7 billion.

AIAL has announced a final dividend for the year ending 30 June 2017 of 10.5 cents per share compared with the final dividend of 9.0 cents per share in the previous financial year, an increase of 16.7%. The final dividend is imputed at the company tax rate of 28% and will be paid in October 2017.

International passengers (excluding transits) were up by 5.4% at Auckland Airport in quarter 1 2017 compared to quarter 1 2016. The later timing of New Zealand and Australian school holidays combined with the impact from the temporary fuel disruption resulted in lower passenger growth in September 2017; AIAL expects to see much of this growth to move into October 2017.

Despite fuel rationing over a 12 day period in September 2017, 97% of the scheduled domestic and international flights operated at Auckland Airport during the period. Impacts to travel and trade were largely mitigated as airlines worked hard to accommodate affected passengers, and services were back to schedule in time for the Term 3 school holidays.

Ports of Auckland Limited (POAL)

POAL paid a final dividend of $26.1m on 31 August 2017, which was $7.0m higher than budget ($19.1m). A tax benefit of $9.2m was included in the actual dividend income but not budgeted in the annual plan.

Features for the quarter include:

- Overall business volumes for the first quarter of the 2017/18 year are ahead of budget and last year.
- Revenue for the first quarter and forecast for the full year are close to the budget and up on last year with higher container, breakbulk and car volumes. Quarterly revenue includes Nexus & Conlinxx revenue consolidation subsequent to purchase in May. Nexus Group was part of equity accounted investments up to April 2017. Partly offsetting the favourable variance is reduced revenue from Seafuels bunker barge 'Awanuia' as it was off hire on scheduled dry docking and a decline in rental income due to sale of investment properties.
- Costs for the first quarter and forecast for the full year are slightly lower than this year's budget but higher than 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.
- 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 a multiuser warehouse and an unbudgeted spend on adding a blast freezer to the Polar Cold facility.

- The Lost Time Injury rate was two for the quarter ended 30 September 2017 (zero for the same quarter last year). POAL continues to enhance the functionality of PortSafe for all staff and continues to implement its strategy of developing a skilled workforce at all levels.
- POAL hosted the 42nd Pacific Maritime Transport Association Conference in August 2017. All of the Pacific Island Ports attended along with several service providers for the region e.g. infrastructure, technology and Shipping Lines. POAL was well recognised for its support of the Conference with both the Ports participating and the Shipping Lines, particularly PDL, who were appreciative of POAL's investment as a key stakeholder in the Pacific trades.
- POAL continues to have a programme of regular engagement with a wide range of stakeholders. POAL meets regularly with Auckland Councillors and local MPs, and local board members, as well as members of the business community.
- POAL sponsored harbour sailings by the steam tug William C Daldy as part of the Auckland Heritage Festival, and all sailings were well subscribed. POAL now charges passengers a small fee for the trip and money raised from the sailings is used to help low-decile schools take their pupils on the Ports of Auckland school port tours which happen throughout the year.
- 20 September was the fourth anniversary of the introduction of Ports of Auckland's transit protocol for large ships using the Hauraki Gulf, which was intended to slow ships speed in the Gulf and reduce the number of Bryde's Whales killed by ship strike. There has been only one whale death in the last four years and none in the last three years, compared to an average of two a year before the protocol was introduced. The average speed of ships in the Gulf in September was 9.9 knots, the lowest since the protocol was introduced and just under the voluntary target speed of 10 knots.

Auckland Film Studios Limited

During the quarter, Auckland Council requested that ACIL transfer its shares in AFSL to the Council, who will 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.

4. Future outlook

ACIL currently expects to meet its 2017/18 budgeted dividend payment to Auckland Council of $92.2m.

5. Key Deliverables

Key deliverables from last quarter

Deliverable	**$'m**	**Completed/ carry over to next quarter/ deferred**	**Status**	**Comments**
Finalise decision on AFSL re-build.	N/A	Completed		Restructure of AFSL is now a matter for the Council.
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 Q1 reporting pack submitted to Council on time.
Transfer AFSL shares to Council	N/A	Completed		ACIL sold its shares in AFSL to Council as planned
2018 -2028 LTP	N/A	On going		ACIL will closely work with POAL AIAL and Council on the LTP process

*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**
30 December quarterly report	Draft is due to Council as required
December 2017 half year statutory financial reporting	To complete half year 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
2018 – 2028 LTP	Lead POAL and AIAL and assist Council in the LTP process
Support work on reducing the impact of motor vehicles on wharves	NZIER report on the benefits of the vehicle trade has been completed.

6. Financial Performance

$'m	ACIL Parent Actual YTD 30 Sep 2017	ACIL Parent Budget YTD 30 Sep 2017	Variance	ACIL Parent Full year Budget 2018	ACIL Parent Full year Forecast 2018
Operational					
Revenue	26.1	19.1	7.0	92.5	92.5
AC funding	0.0	0.0	0.0	-	-
Expenditure excluding interest	0.2	0.3	0.1	1.3	1.3
Interest expense	0.0	0.0	0.0		
Net surplus after tax	25.9	18.8	7.0	91.2	91.2
Dividend to Council	0.0	0.0	0.0	91.2	91.2
Capital					
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	To meet target	$103.4m
Return on Equity	5.9%	To meet target	10.3%
Dividend Distributions	$91.2m	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	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%	To meet target	10.0%
Exercise voting rights in AIAL on all decisions/motions requiring shareholder input	Voting rights are exercised	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 is entering into a partnership with iwi and the local community to restore and enhance the environment of POAL land around the signal station at Manukau South Head, an area of culture significance to Ngati Te Ata.

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.