Auckland Council Investments
An Auckland Council Organisation

# Auckland Council Investments Ltd

## Quarterly Report

## Quarter ended 30 June 2016

### CCO Governance and Monitoring Committee

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# 1. Executive Summary

The ACIL Group recorded an after tax surplus of $115.7m for the year, excluding any asset revaluation for AIAL which is not yet available. The previous year's result was $110.5m. A dividend of $66.5m was paid to Council (budget $63.4m, previous year $75.6m).

POAL delivered a full year after tax surplus of $83.2m (previous year $71.7m).

ACIL's share of AIAL's net profit after tax is estimated at $46.6m, based on recent brokers' estimates (previous year $51.3m). This estimate will be adjusted when the final results are released in late August. The AIAL share price increased from $4.94 to $6.50 during the year, leading to a $416.8m increase in the value of shares owned by ACIL.

Auckland Film Studios Limited contributed a $1.1m after tax surplus to the group result (previous year $4.8m which included $2.9m of insurance recoveries relating to the fire damage in July 2014).

The ACIL Semi-Group recorded an after tax surplus of $69m for the year ended 30 June 2016, which was $5.6m higher than the budgeted surplus of $63.4m.

| **The assessed value of the investments was:** | | | |
|---|---|---|---|
| | **Value 1 Nov 2010 $M** | **Value 30 June 2015 $M** | **Value 30 June 2016 $M** |
| POAL | 623 | 1,079 [1] | 1,079 [1] |
| AIAL | 621 | 1,314 | 1,662 |
| AFSL | 3 | 10 | 10 |
| | **1,247** | **2,403** | **2,751** |
| [1] Not independently valued in 2015 and 2016. | | | |

| 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 [2] |
| 2016 | 66.5 | N/A |
| | **386.4** | **49.5** |

[2] There were no distributions from the DFAP prior to the transfer of its management to Council on 1 March 2015.

ACIL completed a short form amalgamation with its subsidiaries Airport Shares (Auckland) Limited, and Airport Shares (Manukau) Limited as at 31 May 2016, resulting in a simplified group structure. The redemption of the Redeemable Preference Shares in ASML provided the opportunity and trigger for the amalgamation.

In addition, Auckland Council swapped $299m of debt in ACIL for new equity, leaving ACIL as a unleveraged investment entity, with debt leverage occurring at the AIAL and POAL level.

## 2. Strategic issues and focus areas

ACIL is focussed on achieving the targets outlined in ACIL's 2015/18 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.

Given an 'in principle' decision to rebuild the studio at AFSL's Henderson premises, ACIL will work with the AFSL Board to progress the business case and proposal to ACIL for rebuilding the studio.

# 3. Highlights for the last quarter

### Auckland International Airport Limited (AIAL)

We have incorporated recent broker's estimates in our financial results of ACIL's share of AIAL's net profit after tax of $46.6m (2015 $51.3m). This estimate will be adjusted in late August when the financial results and asset revaluation information is published by AIAL.

The AIAL share price has increased from $6.43 (31 March 2016) to $6.50 (30 June 2016), representing an increase for the quarter of $18.6m and an increase of $416.8m for the year (share price was $4.94 as at 30 June 2015).

International passengers (excluding passengers in transit) at Auckland airport were up 8.6% for the year.

### Ports of Auckland Limited (POAL)

POAL delivered a full year after tax surplus of $83.2m, which is $30.5m higher than the current year's budget of $52.7m, and $11.5m higher than the previous year ($71.7m). The increase is largely due to gains from asset revaluations of $29.4m.

Revenue and costs for the current year are down on budget and last year due to the difficult conditions in the shipping industry brought by an oversupply of container capacity. Port operations EBIT is slightly higher than last year due to lower costs for pavement and wharf maintenance.

POAL paid ACIL $42.2m of dividend income for the year, which is $1.2m above the full year budget ($41m).

Features for the quarter include:

- The last twelve months have been a difficult period for the global liner shipping industry, which has had a dramatic impact on POAL's Container Terminal business. The forecast for the next 12 to 24 months is likely to continue to be volatile.
- POAL has continued to focus on ship-side productivity, resulting in retaining a similar crane and ship rate productivity as Port of Tauranga.
- A strong indication of POAL's service levels was recognised through their winning of the 'Best Sea Port in Oceania' at the Asia Cargo News Awards held in Shanghai. This is a nominated award by their customers and POAL was the winning finalist amongst Ports of Brisbane, Sydney and Melbourne. No other NZ Port was nominated.
- POAL has been working hard to rebuild relationships with stakeholders. Apart from the stakeholder engagement programme with local and central government stakeholders, POAL has also started to develop a sustainability framework, which includes building a sustainable relationship with stakeholders and the neighbouring community. This work is ongoing with a view to having a framework in place by the end of the 2016/17 financial year.

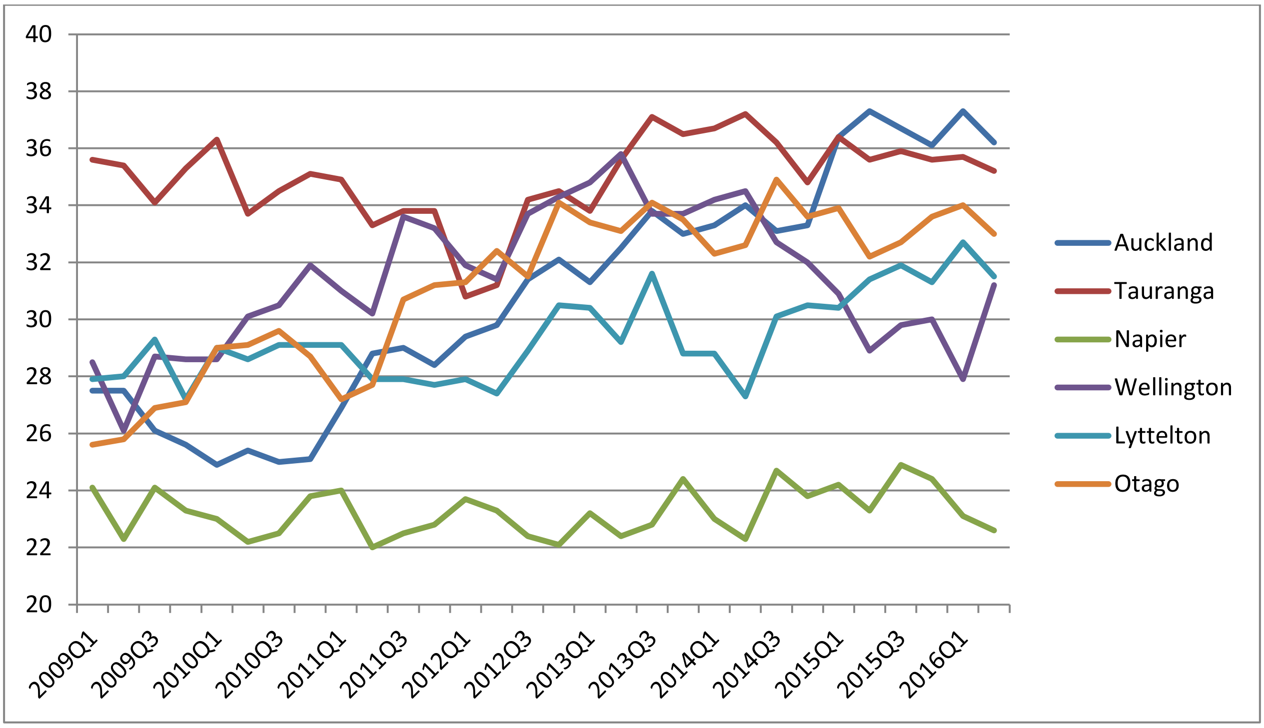
- Lost time injury was one for the quarter ended 30 June 2016 (six for the same quarter last year).
- POAL is closely monitoring and managing the health and safety at its workplace.

**Ports Productivity**

| Productivity measure | 2015/16 result (containers/hour) | 2014/15 result (containers/hour) |
|---|---|---|
| Crane rate[1] | 37 | 35.0 |
| Vessel rate[2] | 78.4 | 73.0 |
| Ship rate[3] | 88.7 | 84.5 |

The quarterly ship, vessel and crane rates as reported by Ministry of Transport are shown in graphs below.

**Crane rate**

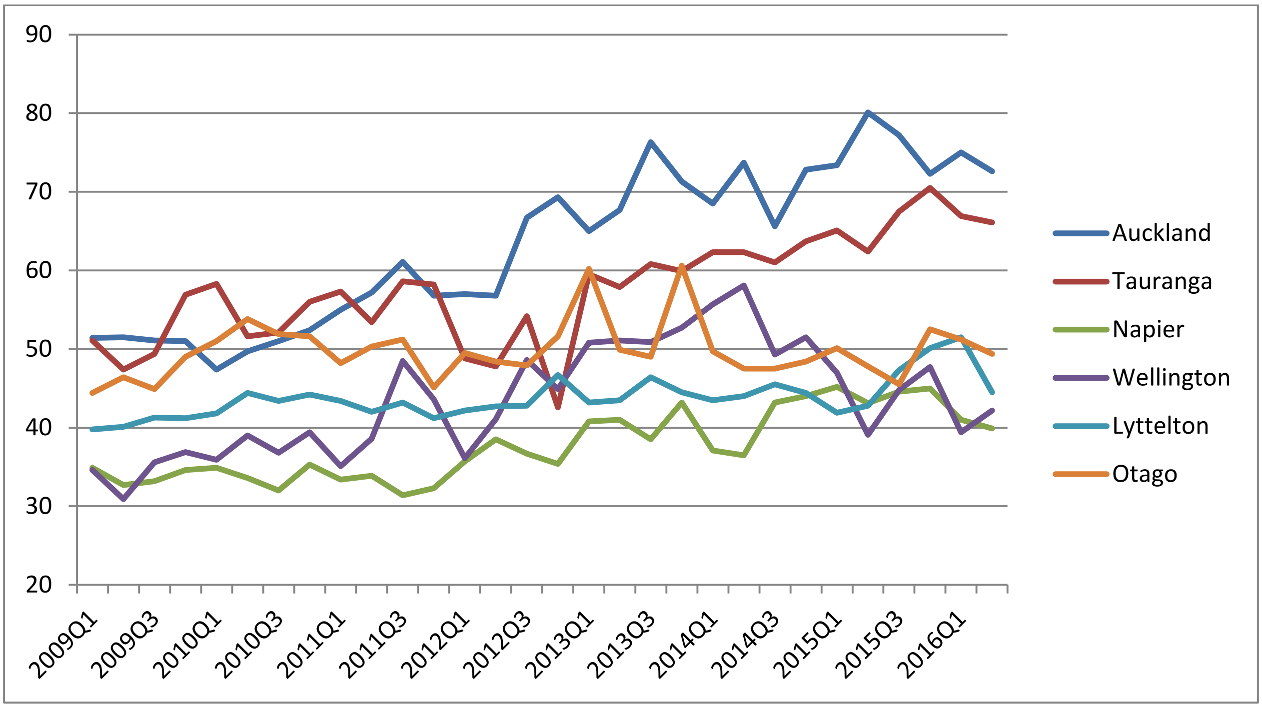



[1] Crane rate is the number of containers a crane lifts on and off a container ship in an hour (as reported by the Ministry of Transport)

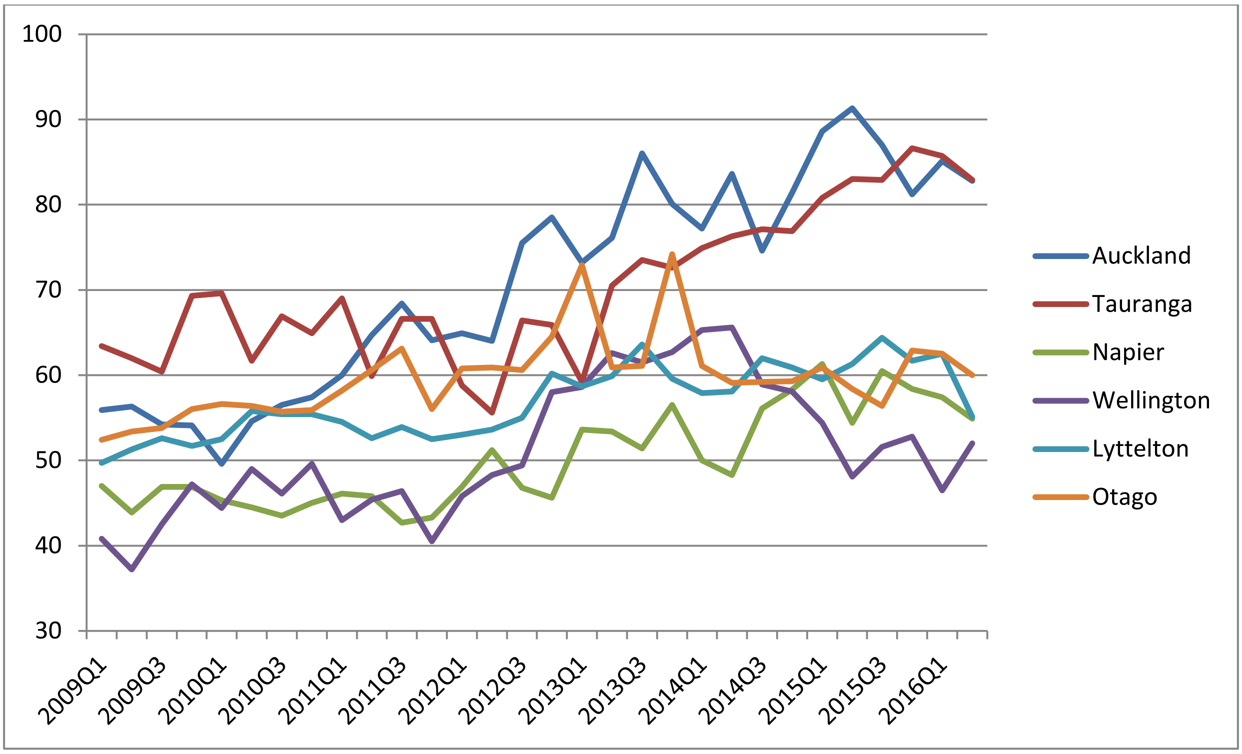
[2] Vessel rate is the number of containers moved on and off a container ship in an hour of labour (as reported by the Ministry of Transport)

[3] Ship rate is the number of containers moved on and off a container ship in an hour (as reported by the Ministry of Transport)

### Vessel rate




### Ship rate



**Port Future Study**

Following the release of the EY and CWG (Consensus Working Group) reports, POAL was concerned with the assumptions used by EY in their report, particularly in relation to POAL's future capacity. The CWG commissioned Hamburg Port Consulting (HPC) from Germany to undertake a high level peer review of the EY and Black Quay work. HPC believe that POAL's existing capacity plans are attainable in contrast to the conclusions of EY. Of the two triggers the PFS suggests monitoring as a trigger to relocate (capacity and social constraints), it is clear that capacity is less likely to be an issue.

**Port of Onehunga**

POAL agreed a conditional Sale and Purchase Agreement with Panuku Development Auckland (PDA) in December 2015. PDA continue to advance discussions with NZTA over the East-West motorway alignment on the basis that PDA now "own" the property. The proposed East-West link impacts the Port of Onehunga land.

**Auckland Film Studios Limited**

Auckland Film Studios Limited contributed a $1.1m after tax surplus to the group result. Last year's result of $4.8m included $2.9m of insurance recoveries relating to the fire damage in July 2014.

ATEED was not able to finalise a commercially viable proposal for establishing a film studio at Hobsonville Point. AC and ACIL have agreed AFSL should continue to develop a proposal for the rebuild of a studio at their Henderson premises whilst at the same time acknowledging ATEED continues to progress a film precinct proposal at Westgate.

AFSL and ATEED are currently engaged on a project to determine how they can more closely work together wihtout compromising AFSL's commercial objectives.

## 4. Future outlook

ACIL expects to meet its 2016/17 budgeted dividend payment to Auckland Council of $85.9m. ACIL converted $299m of intercompany debt to equity in June 2016, which will result in an increase in dividend in 2016/17 (and a corresponding decrease in interest paid to Auckland Council).

## 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 | In progress | | ACIL is expecting AFSL to present option for the rebuild shortly. |
| On-going monitoring of wholly owned subsidiaries | N/A | On going | | |
| Council reporting requirements | N/A | Ongoing | | ACIL Q4 reporting pack submitted to Council on time. |
| Proposed amalgamation and capital restructure | N/A | Completed | | The proposed amalgamation for ACIL, ASAL and ASML and a conversion of the $299m intercompany debt to equity were completed in the 2015/16 year. |
| Annual plan | N/A | Completed | | ACIL has delivered the annual plan on time |
| Draft 2016/2019 SOI | N/A | Completed | | ACIL has delivered the SOI 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 |
|---|---|
| 30 June quarterly report | Draft is due to Council 12 August 2016 |
| Assessment of rebuild opportunity at Henderson film studios | Finalise discussions with Auckland Council and ATEED |
| Appoint 2 further directors to POAL | ACIL expects to appoint 2 directors in August |
| Budget to SAP | Cooperate with Council in completing the project |
| Preparation for the year end financial reporting | Meet all statutory reporting requirements |

## 6. Financial Performance

| $'m | Semi-Group Actual 2016 [1] | Semi-Group Budget 2016 [1] | Semi-Group Variance 2016 | Group Results 2016 (Draft) [2] | Group Results 2015 |
|---|---|---|---|---|---|
| **Operational** | | | | | |
| Revenue | 84.3 | 80.6 | 3.7 [3] | 212.5 | 224.6 |
| AC funding | 0.0 | 0.0 | 0.0 | - | - |
| Expenditure excluding interest | 1.2 | 1.2 | 0.0 | 137.2 | 132.4 |
| Interest expense | 14.0 | 16.1 | 2.1 [4] | 25.6 | 27.2 |
| Net surplus after tax | 69.0 | 63.4 | 5.6 | 115.7 | 110.7 |
| Dividend to Council | 66.5 | 63.4 | 3.1 | 66.5 | 75.6 |
| **Capital** | | | | | |
| Expenditure | - | - | - | 81.9 | 27.4 |
| AC funding | - | - | - | - | - |
| External funding | - | - | - | - | - |

*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

Note:

1 ASAL and ASML amalgamated into ACIL parent in May 2016. The ACIL Semi-Group actual and budget for the 2015/16 year are provided, together with the comparison of two years group results.
2 2016 group results are subject to audit and don't include the AIAL late adjustment.
3 The $3.7m favourable variance in revenue mainly relates to the dividend income from POAL and AIAL being higher than the budget.
4 The $2.1m favourable variance in interest expense is due to lower than planned interest rate and one month interest saving from the debt to equity conversion.

## 7. Performance measures

### Key performance measures

| Measure | Year-end target | On track | Last Actual |
|---|---|---|---|
| Operating Surplus after Tax of the ACIL parent | $63.4m | Actual $69m. Target exceeded | $75.7m |
| Return on Equity | 7.0% | Target met | 12.3% |
| Dividend Distributions | $63.4m | $66.5m. Target exceeded. | $75.6m |
| Quarterly report to the Accountability and Performance Committee | The quarterly report is provided within specified timeframes and meets requirements of the SEG | Target met | Target met |
| Timely consideration of relevant information with regard to candidates for POAL and AFSL director appointments | Competent Directors are appointed | POAL and AFSL are considered to have competent directors. | POAL and AFSL are considered to have competent directors. |
| POAL's Return on Equity | 11% | 15.6% . Target exceeded | 11.5% |
| Exercise voting rights in AIAL on all decisions/motions requiring shareholder input | Voting rights are exercised | Expect to meet | ACIL exercised its voting rights at the AIAL ASM in October 2015. |
| AFSL's Net Profit After Tax | NPAT is positive | $1.1m. Target exceeded | $4.8m |

## 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 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. ACIL has had 8 meetings in the 2015/16 year.

## 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.