

Auckland Council Investments Ltd

Quarterly Report

Quarter ended 30 September 2016

CCO Governance and Monitoring Committee

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1. Executive Summary

The ACIL parent recorded an after tax surplus of \$28.2m for the first quarter of the 2017 Financial year, \$8.9m higher than the YTD budget (\$19.3m) mainly due to the higher than planned POAL dividend.

POAL paid a final dividend of \$28.4m on 31 August 2016, which was \$8.8m higher than budget (\$19.6m).

AIAL has announced a final dividend of 9 cents per share for the 2016 Financial Year. This results in a total dividend for the 2016 Financial Year of 17.5 cents per share – representing an increase of 19.9% compared with last year. The final dividend is imputed at the company tax rate of 28% and will be paid in October 2016.

The AIAL share price increased from \$6.50 (30 June 2016) to \$7.35 (30 September 2016) during the quarter, leading to a \$226.4m increase in the value of shares owned by ACIL. As at 30 September 2016, the market value of ACIL's investment in AIAL was \$2.0 billion.

2. Strategic issues and focus areas

ACIL is focussed on achieving the targets outlined in ACIL's 2016/19 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.

3. Highlights for the last quarter

Auckland International Airport Limited (AIAL)

The AIAL share price increased from \$6.50 (30 June 2016) to \$7.35 (30 September 2016), representing an increase for the quarter of \$226.4 million. As at 30 September 2016, the market value of ACIL's investment in AIAL was \$2.0 billion.

AIAL announced a final dividend of 9 cents per share for the year ending June 2016. This results in a total dividend for the 2016 Financial Year of 17.5 cents per share – representing an increase of 19.9% compared with last year.

The dividend for the 2017 Financial Year is budgeted at 17.9 cents per share.

ACIL will attend and vote its shareholding at the upcoming AIAL ASM on 20 October 2016.

International passengers (excluding transits) increased by 11.9% to 734,921 in September 2016, compared with September 2015. The majority of growth came from Asia (up 36,000 passengers) and Americas routes (up 19,000 passengers). Shoulder season holiday arrivals were strong from these regions, supported by increased overseas travel by New Zealanders during the school holiday period.

Ports of Auckland Limited (POAL)

POAL paid a final dividend of \$28.4m on 31 August 2016, which was \$8.8m higher than budget (\$19.6m).

Features for the quarter include:

- Revenue in the first quarter is up on budget and last year due to higher volumes from additional ship calls. This is slightly offset by unfavourable container revenue compared to budget and last year.
- Costs in the first quarter are in line with budget but ahead of last year due to extra spend on repairs and maintenance relating to pavements, dredging and Seafuels tanker repairs.
- A positive start to the new year with first quarter container volumes ahead of budget and last year. Container Terminal volumes were marginally below last year and budget by approximately 0.4% or 900 TEU; however Multi-cargo container volumes were up by 12% or 3,200 TEU.
- Breakbulk volumes have also got off to a positive start for the new financial year, up 15% - 20% against budget and last year.
- Car volumes have got off to a very strong start tracking at 22 - 24% ahead of budget and last year.
- Construction of the Fergusson North berth is progressing, with 90% of the piles installed and deck construction underway. The contractor's program has however slipped 6 months and completion is expected in October 2017.

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

Auckland Film Studios Limited

AFSL produced a surplus after tax of \$0.8m for the 2016 Financial Year.

The strategic issue facing AFSL is how it fits with ATEED's plans to encourage private sector investment in the screen production industry and how it progresses a rebuild, if any, at its Henderson studios.

4. Future outlook

ACIL expects to meet its 2016/17 budgeted dividend payment to Auckland Council of \$85.9m.

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 options for the rebuild in November.
On-going monitoring of wholly owned subsidiaries	N/A	On going		
Council reporting requirements	N/A	Ongoing		ACIL Q1 reporting pack submitted to Council on time.
Statutory reporting requirements	N/A	Completed		ACIL published 2015/16 annual report on time.
Annual plan	N/A	In progress		ACIL plans to deliver the annual plan on time
Draft 2017/2020 SOI	N/A	In progress		ACIL plans to deliver 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
31 December quarterly report	Draft is due to Council 7 February 2017
Assessment of rebuild opportunity at Henderson film studios	Finalise industry discussions with Auckland Council and ATEED and provide guidance to the AFSL Board
Budget to SAP	Cooperate with Council in completing the project
Preparation for the half year financial reporting	Meet all statutory reporting requirements
Appoint a further director to AFSL	ACIL expects to appoint a director before Dec 2016

6. Financial Performance

\$'m	ACIL Parent Actual Quarter ended Sep 2016	ACIL Parent Budget Quarter ended Sep 2016	Variance	ACIL Parent Full year Budget 2017	ACIL Parent Full year Forecast 2017
<u>Operational</u>					
Revenue	28.4	19.6	8.8	86.9	86.9
AC funding	0.0	0.0	0.0	-	-
Expenditure excluding interest	0.2	0.3	0.1	1.1	1.1
Interest expense	0.0	0.0	0.0	0.0	0.0
Net surplus after tax	28.2	19.3	8.9	85.9	85.9
Dividend to Council	0.0	0.0	0.0	85.9	85.9
<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	\$85.9m	Expect to meet	\$66.5m
Return on Equity	6.8%	Expect to meet	21.4%
Dividend Distributions	\$85.9m	Expect to meet.	\$66.5m
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	9.1%	Expect to meet	15.6%
Exercise voting rights in AIAL on all decisions/motions requiring shareholder input	Voting rights are exercised	Target met	ACIL exercised its voting rights at the AIAL ASM in October 2016.
AFSL's Net Profit After Tax	NPAT is positive	Expect to meet	\$0.8m

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 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. 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.