

STATEMENT OF INTENT

Auckland Council Investments Limited

For the period from 1 July 2018 to 30 June 2021

**He maungārongo ki te whenua.
He whakaaro pai ki ngā tāngata katoa.**

**Tuia ki te rangi Tuia ki te
whenua
Tuia ki te ngākau o te tangata. Ki ngā**

Mate - haere.

Ki te Hunga Ora – Nau mai – Haere mai.

Ki ngā Mana Whenua e tau nei – Tena koutou. E kui

mā.

E koro mā.

E raurangatira ma. Tena

koutou katoa.

May there be peace on earth and goodwill to all people. The

tapestry of life that binds the earth and heaven,
Is held within the hearts of the people.

We acknowledge our loved ones who have passed on – farewell. To

those who live here, welcome

To the first people of this land, greetings.

To our elders, our friends and our colleagues – greetings to you all.

1. CHAIR / CHIEF EXECUTIVE FORWARD

Auckland Council Investments Limited (ACIL) holds 100% of the shares in Ports of Auckland Limited (POAL) as well as a large minority equity holding (22.3%) in Auckland International Airport Limited (AIAL), a NZX listed entity.

The purpose of ACIL is to support the Council's vision and to bring a strong commercial focus to the ownership and management of the Council's investments in POAL and AIAL, and to provide an efficient structure for the ownership of these assets.

Sound commercial governance of these assets, within the parameters set by the Council (while acknowledging that the Council/ACIL has limited influence on and does not control AIAL) is important. ACIL's role is to endeavour to maximise the contribution of its investments to the Auckland economy and provide substantial financial returns, which are financially sustainable in the long term, to the Council.

ACIL will play a guiding role in influencing the strategic and long term direction of its wholly owned subsidiary, POAL. It will encourage the Port to adopt standards of governance and stakeholder responsiveness appropriate to its size and importance to the Auckland economy.

ACIL's key role is that of monitoring performance of these investments and using the influence and levers it has to encourage the companies to meet the goals in this Statement of Intent (SOI).

Keith Taylor
Chair

John Crawford
Chief Executive

TABLE OF CONTENTS

1. CHAIR / CHIEF EXECUTIVE FORWARD	3
2. PURPOSE OF STATEMENT OF INTENT	5
3. ABOUT AUCKLAND COUNCIL INVESTMENTS LIMITED	5
4. ACIL'S CONTRIBUTION TO THE WORLD'S MOST LIVEABLE CITY.....	7
5. ACIL'S STRATEGIC OBJECTIVE.....	8
6. THREE YEAR WORKPLAN TO DELIVER ON STRATEGIC DIRECTION	8
7. PERFORMANCE OUTLOOK	9
8. SUMMARY OF FINANCIALS	15
9. APPROACH TO GOVERNANCE	17

2. PURPOSE OF STATEMENT OF INTENT

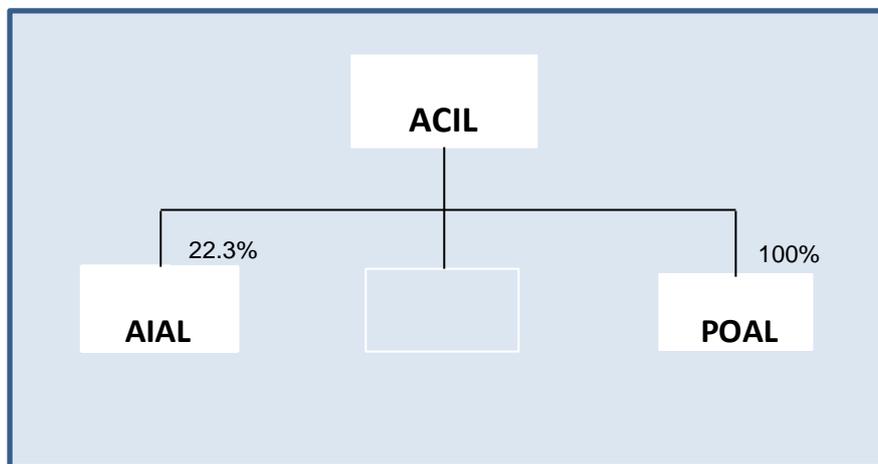
In accordance with the Local Government Act 2002, this annual Statement of Intent (SOI) publicly states the activities and intentions of Auckland Council Investments Limited for the next three years, and the objectives that those activities will contribute to. This SOI takes shareholder comments into consideration and includes performance measures and targets as the basis of organisational accountability.

3. ABOUT AUCKLAND COUNCIL INVESTMENTS LIMITED

This SOI covers ACIL and its wholly owned subsidiary, POAL, and its investment in AIAL.

ACIL is a Public Benefit Entity for financial reporting purposes as it manages key strategic assets of the Council for the long term economic benefit of the Auckland region.

The ownership of ACIL's equity investments by companies within the ACIL Group as at 1 July 2017 is shown in the following diagram:



ACIL's shareholding results in the following formal relationships with its investee companies:-

For POAL

- ACIL appoints Directors to the Board
- ACIL engages with and agrees the strategy of the company
- ACIL approves the company's Statement of Corporate Intent each year

For AIAL

ACIL votes its shares at any meeting of shareholders of AIAL, including those where directors are being appointed or re-appointed

It is important to note that each of the investee companies are separate legal entities, which are bound by legislation including the Companies Act, and the Ports Act and NZX Listing Rules in the case of POAL and AIAL respectively.

The duties of the Directors of these companies and the rights of shareholders are set out in legislation. In particular, the responsibility to manage the companies, and make operational and capital decisions lies largely with the Board, who are obliged to act in the best interests of the company, which is not necessarily that of its shareholder(s)

In practice, this means that ACIL works closely with the Board of POAL to ensure shareholder objectives are considered in its governance and management, and that its strategies are agreed with and supported by ACIL.

For AIAL, ACIL does not seek any information beyond what AIAL provides to the market, to ensure that ACIL (and its related parties and their employees) do not risk becoming insiders under the insider trading regime.

4. ACIL'S CONTRIBUTION TO THE WORLD'S MOST LIVEABLE CITY

The Auckland Plan is the roadmap to deliver on Auckland's vision to be the world's most liveable city. This is a thirty year plan that is underpinned by a set of outcomes and transformational shifts to achieve this vision which help ensure the Council focuses on the right things.

AUCKLAND'S VISION

THE WORLDS MOST LIVEABLE CITY

OUTCOMES: WHAT THE VISION MEANS IN 2040

A fair, safe and healthy Auckland	A green Auckland	An Auckland of prosperity and opportunity	A well connected and accessible Auckland	A beautiful Auckland that is loved by its people	A culturally rich and creative Auckland	A Maori identity that is Auckland's difference to the rest of the world
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TRANSFORMATIONAL SHIFTS TO ACHIEVE THE OUTCOME

Dramatically accelerate the prospects of Auckland's children and young people	Strongly commit to environmental action and green growth	Move to outstanding public transport within one network	Radically improve the quality of urban living	Substantially raise living standards for all Aucklanders and focus on those most in need	Significantly lift Maori social and economic well-being
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The Auckland Plan transformational shifts work together to achieve the transformations that are required to get there. ACIL plays a part in delivering on these shifts as outlined in the table below:

Auckland Plan	How ACIL contributes
Children & young people	<p>As a holding company, ACIL contributes indirectly to the transformational shifts.</p> <p>ACIL focusses on maximising its contribution to the Auckland economy through the investments it owns by providing substantial financial returns, which are financially sustainable in the long term, to the Council.</p> <p>These financial returns to Council are then used by Council to support the transformational shifts.</p>
Environmental action & green growth	
Outstanding public transport	
Quality urban living	
Raised living standards	
Maori social and economic wellbeing	

5. ACIL'S STRATEGIC OBJECTIVE

Growth in asset value and return

ACIL will continue to work with the boards of the companies it holds investments in to maximise both earnings growth and long term asset values and returns.

Strategic priorities

ACIL's primary objective is to support a robust, growing economy by bringing a strong commercial focus to the ownership and management of the council's equity investments and securing a good economic return for the benefit of ratepayers. ACIL will encourage its subsidiary to support the Auckland Plan transformational shifts. ACIL will periodically review the strategic plans of its wholly owned subsidiary to ensure that as a shareholder it fully supports the strategies of its subsidiary.

Maori Responsiveness

Contributing to Maori well-being, organisational effectiveness and post-Treaty settlement opportunities is an important priority for Council. ACIL is a member of Te Toa Takitini – Maori Responsiveness High Performance Council established by the Council's Executive Leadership Group. ACIL will work with Te Toa Takitini and the Independent Maori Statutory Board to identify how it can contribute to Maori well-being other than by providing substantial financial returns to Council which can be used by Council to meet its objectives for Maori.

ACIL will encourage its subsidiaries to develop knowledge of and support Council's policies and contribution to Maori well-being.

6. THREE YEAR WORKPLAN TO DELIVER ON STRATEGIC DIRECTION

ACIL focusses on maximising its contribution to the Auckland economy through its investments and provides substantial financial returns, which are financially sustainable in the long term, to the Council.

7. PERFORMANCE OUTLOOK

ACIL has an agreed set of performance measures and targets which form the basis for accountability to delivering on its strategic objectives.

Service Level Statement	Measure	2016/17 Actual	2017/18 Annual Plan	2018/19	2019/20	2020/21
Manage council investments to optimise returns ¹	Return on equity (ROE) for ACIL group	9.9%	5.9%			

¹ The variability in the ROE from year to year results from the triennial valuation of property, plant and equipment. The ROE target from 2017/18 to 2019/20 is based on average equity, while the closing equity was used in years prior to 2016/17.

ACIL plans to review this single performance measure with its shareholder, as it is subject to large variations from revaluation of assets. It may be more appropriate to use a smoothed ROE, a ROE excluding revaluations, or a growth in dividends as its primary performance measure.

These will be reported on quarterly in accordance with the CCO Governance Manual and align to the measures agreed as part of the Long-term Plan 2015-2025.

Being a Public Benefit Entity, ACIL has two aspects to its activities: one focuses on financial returns and the other on wider economic and social benefits to the Auckland Region. In order to support the long-term performance measure, ACIL will take a long-term strategic approach to the management of its investments and where appropriate will integrate economic and social considerations in its decision-making process.

Relative to Auckland Council's level of investment in POAL and AIAL, ACIL will make significant contributions to "Te pai me te whai rawa o Tamaki" ("an Auckland of prosperity and opportunity"), and "a well-connected and accessible Auckland".

(i) ACIL

Service Level Statement	Measures	2016/17 Actual	2017/18 Annual Plan	2018/19	2019/20	2020/21
Manage Council investments to optimise Council returns for the long-term benefit of Auckland	Return on Equity (ROE) of the ACIL Group	9.9%	5.9%			
	Operating Surplus after Tax of ACIL Parent	\$103.4 million	\$91.2 million	\$102.1 million	\$100.3 million	\$109.4 million
	Dividend Distributions	\$85.9 million	\$91.2 million	\$100.0 million	\$103.0 million	\$109.4 million
	Annual report outlining contributions made by ACIL's investments to Auckland Plan outcomes	Annual Report 2017	Annual Report 2018	Annual Report 2019	Annual Report 2020	Annual Report 2021

In order to support the service level statement and to achieve the desired measures, ACIL will:

- Be accountable for the prudent governance and management of the Council's investments by meeting all Council accountability requirements
- Communicate with the Council and other CCOs regarding opportunities and synergies with ACIL to deliver Auckland Plan outcomes including using shared services where appropriate.
- Give effect to existing Group policies and participate in the development of further policies
- Provide information to the Council in relation to any major proposals relating to ACIL assets
- Actively engage with council officers on the proposal to dis-establish ACIL, and encourage POAL to do the same
- Encourage POAL and AIAL to act as good neighbours and good corporate citizens
- Offer to meet with all Local Boards to brief them on ACIL's role and historical performance, and to discuss issues that Local Boards have with ACIL's investee companies
- Support the Council's long term plan process during the 2018/19 year by:-
 - a) providing policy advice and options relating to how Council can promote the strategic interests of Auckland with its investee companies; and
 - b) working with Council to revise measures and targets
- Work with Te Toa Takitini and the Independent Maori Statutory Board to
 - a) brief the 19 tribal authorities in the region (as a combined group) on ACIL's purpose and performance; and
 - b) develop a service performance measure for engagement with mana whenua in consultation with the IMSB

(ii) POAL

Service Level Statement	Measures	2016/17 Actual	2017/18 Annual Plan	2018/19	2019/20	2020/21
Competent Directors are appointed to the POAL Board	Timely consideration of relevant information with regard to candidates for appointments	Competent Directors appointed	Competent Directors are appointed	Competent Directors are appointed	Competent Directors are appointed	Competent Directors are appointed
	Report to Auckland Council about proposed appointments	Council is kept fully informed	Auckland Council is kept fully informed and consulted in advance about proposed appointments	Auckland Council is kept fully informed and consulted in advance about proposed appointments	Auckland Council is kept fully informed and consulted in advance about proposed appointments	Auckland Council is kept fully informed and consulted in advance about proposed appointments
Progress towards the target of increasing financial returns from POAL is closely monitored	Return on Equity					

In order to support the service level statements and to achieve the desired outputs ACIL will:

- Require POAL to continue to develop and implement its long-term strategy to improve POAL's profitability and growth in earnings
- Provide guidance to POAL regarding the long-term interests of the region and its economy
- Monitor strategies and major investments proposed by POAL and assess whether these are consistent with and support Auckland Council's strategies and objectives and the Auckland Plan. In particular, ensure that ACIL has sufficient visibility over the POAL's capex programme to ensure Council is able to fully determine the impact of this programme on its debt limits.
- Monitor POAL's plans and strategies for any changes to POAL's wharf and terminal configuration, assess whether they are aligned to Council's strategies and consult with Council on any significant proposed changes.

- Provide guidance (to POAL and the Council) in the management of boundary issues associated with the broader development aspirations of Panuku Development Auckland in connection with the Waterfront Development Masterplan and encourage the POAL board to consider options to resolve any conflicts
- Encourage POAL to increase focus and reporting on the contribution POAL makes to Māori economic and social well-being through its quarterly reporting
- Encourage POAL to operate in such a way that it contributes to the Council's Greenhouse Gas Emissions target to reduce GHG emissions by 40% by 2040 based on 1990 levels
- Provide advice to Council on the degree to which the strategies of POAL support a commitment to environmental action, including resilience to climate change
- Ensure POAL has a stakeholder engagement plan in place
- Ensure that POAL are clear about Council's expectations regarding reclamation of land and wharf extensions into the Waitemata harbor
- Together with POAL, fully participate in any Council led work relating to the future of the Port, and in any central Government work on an Upper North Island port study
- Investigate, with POAL and any other relevant parties, how the adverse impacts of motor vehicles stored on the wharves can be reduced or eliminated
- Monitor and report to the Council performance of POAL through review of KPIs which relate to increases in the:
 - Crane rate to x by 30 June 2019¹
 - Vessel rate to x by 30 June 2019²
 - Container Volume to x% on rail by 30 June 2019
 - Customer Survey Satisfaction 8/10

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)

These rates are reset on an annual basis and will be determined before the SOI is finalized.

(iii) AIAL

Service Level Statement	Measures	2016/17 Actual	2017/18 Annual Plan	2018/19	2019/20	2020/21
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 exercised	Council is consulted in advance on shareholder decisions and voting rights are exercised	Council is consulted in advance on shareholder decisions and voting rights are exercised	Council is consulted in advance on shareholder decisions and voting rights are exercised	Council is consulted in advance on shareholder decisions and voting rights are exercised
	Advise Council on proposed decisions/ motions	Council is kept fully informed	Council is kept fully informed	Council is kept fully informed	Council is kept fully informed	Council is kept fully informed

In order to support the service level statement and to achieve the desired outputs ACIL will:

- Keep the Auckland Council informed around AIAL's intentions around capital raising
- Keep Auckland Council aware of any actions which might impact on the Council's shareholding in AIAL, and provide advice on options relating to the shareholding
- Encourage AIAL to operate in such a way that they contribute to the Council's Greenhouse Gas Emissions target to reduce GHG emissions by 40% by 2040 based on 1990 levels.
- Encourage AIAL to increase focus and reporting on the contribution AIAL makes to Māori economic and social well-being.
- Encourage AIAL to support the Auckland Plan where it is appropriate to do so

8. SUMMARY OF FINANCIALS

The following summary of financials supports the delivery of the strategic deliverables and performance targets for ACIL.

Auckland Council Investments Limited (Parent)

Prospective Statement of Financial Performance

	Annual Plan	Forecast	LTP	LTP	LTP
\$ million	2017/18	2017/18	2018/19	2019/20	2020/21
Income					
Dividend revenue	92.5	103.3	103.2	101.4	110.5
Total income	92.5	103.3	103.2	101.4	110.5
Expenditure					
Employee benefit	0.4	0.4	0.4	0.4	0.4
Professional services	0.6	0.6	0.4	0.4	0.5
Other operating expenditure	0.2	0.2	0.2	0.2	0.2
Total expenditure	1.3	1.3	1.1	1.1	1.1
Operating surplus before tax	91.2	102.0	102.1	100.3	109.4
Share of equity accounted investments su	-	-	-	-	-
Surplus before tax	91.2	102.0	102.1	100.3	109.4
Income tax expense	-	-	-	-	-
Surplus after tax	91.2	102.0	102.1	100.3	109.4
Dividend returned to Auckland Council	91.2	91.2	100.0	103.0	109.4
Net surplus after dividend distribution	-	10.8	2.1	(2.7)	-

Other financial information

Current value of assets	<p>Value as at 30 Jun 2017</p> <p style="text-align: right;">\$m</p> <table> <tr> <td>Ports of Auckland Limited</td> <td style="text-align: right;">1,079</td> </tr> <tr> <td>Auckland International Airport Limited</td> <td style="text-align: right;">1,899</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">2,993</td> </tr> </table>	Ports of Auckland Limited	1,079	Auckland International Airport Limited	1,899	Total	2,993
Ports of Auckland Limited	1,079						
Auckland International Airport Limited	1,899						
Total	2,993						
Shareholder equity ratio	<p>The latest shareholder equity ratio for ACIL as at 30 June 2017 is 100%.</p>						
Accounting Policies	<p>ACIL has previously established that it is a public benefit entity (PBE). ACIL is also a public entity under the Public Audit Act 2001. Therefore ACIL is a Public Sector PBE as defined in XRB A1 Accounting standards framework (for-profit entities plus public sector public benefit entities update) (XRB A1).</p> <p>Public sector PBEs transitioned to PBE Standards for accounting periods beginning on or after 1 July 2014. ACIL has adopted the PBE Standards for the financial year beginning 1 July 2014; that is, its financial statements for the financial year ending 30 June 2015 and thereafter will be PBE Standards-compliant financial statements.</p> <p>ACIL's accounting policies are consistent with those of the Council (as disclosed in the 2014 Annual Report) with the following exception:</p> <p>The Council has taken advantage of transitional provisions available to public benefit entities and has elected to defer the adoption of NZ IAS 23 Borrowing Costs (Revised 2007) and all borrowing costs are therefore recognised as an expense in the period in which they are incurred. However, companies in the ACIL Group capitalise borrowing costs which are incurred in the construction of a qualifying asset.</p>						
Financial Reporting	<p>ACIL's financial reporting will be in accordance with the requirements of the CCO Governance Manual.</p>						

9. APPROACH TO GOVERNANCE

Auckland Council works in partnership with its CCOs and the Council's approach to governance is outlined within the CCO Governance Manual which sits alongside this SOI. ACIL expects that it will act in accordance with the CCO Governance Manual.

Auckland Council CCOs are required to hold two public meetings a year (Local Government (Auckland Council) Act 2009):

Purpose	Date	Form of Public Notification
Consider shareholder comments on draft SOI		Board meetings will be advertised on the Council's website and through the public notices section of the New Zealand Herald normally five days prior to the meeting date. Reports and documents to be considered at these meetings will be available on the website; and from ACIL on request; except for reports and documents which are considered by ACIL to be confidential
Consider performance against SOI targets		