

Auckland Council Investments Ltd

Quarterly Report

Quarter ended 31 March 2018

CCO Governance and Monitoring Committee

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1. Executive Summary

The ACIL parent recorded an after tax surplus of \$77.2m for the nine months to March 2018, \$12.5m higher than the YTD budget (\$65.4m). This was mainly due to the higher than planned POAL dividend of \$49.9m vs budget of \$38.2m. The bulk of this increase is due to the tax benefit from the Auckland Council Group tax offsetting arrangement.

POAL continues to meet its financial targets in a challenging environment.

AIAL has announced an interim dividend of 10.75 cents per share for the 2018 financial year, up 7.5%. AIAL's financial performance in the six months to 31 December 2017 means that underlying earnings per share have continued to increase, up 7.3% to 11.1 cents per share.

The AIAL share price decreased from \$7.13 (30 June 2017) to \$6.12 (31 March 2018) during the nine months, leading to a \$269 million decline in the value of shares owned by ACIL. As at 31 March 2018, the market value of ACIL's investment in AIAL was \$1.6 billion.

ACIL expects to meet its budgeted dividend to Auckland Council of \$92.5m.

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.

3. Highlights for the last quarter

Auckland International Airport Limited (AIAL)

AIAL has announced an interim dividend for the 2018 financial year of 10.75 cents per share, up 7.5%. It will be imputed at the company tax rate of 28% and paid on 5 April 2018 to shareholders who are on the register at the close of business on 20 March 2018. AIAL's financial performance in the six months to 31 December 2017 means that underlying earnings per share have continued to increase, up 7.3% to 11.1 cents per share. ACIL's dividend income from AIAL for the 2018 financial year is expected to be \$56.6 million, being \$2.3 million higher than the annual plan budget (\$54.3 million).

The AIAL share price has decreased from \$7.13 (30 June 2017) to \$6.12 (31 March 2018), a drop of value of \$269m in market value for the year. As at 31 March 2018, the market value of ACIL's investment in AIAL was \$1.6 billion.

International passengers (excluding transit passengers) increased by 8.9% to 909,413 in March 2018. The 74,000 increase, compared with March 2017, was due to both the Easter holiday period starting in late-March this year, compared to mid-April in 2017 and strong capacity growth on the Asia and Middle East (+24,000 seats), Americas (+14,000 seats) and the Pacific Islands (+14,000 seats) routes.

Ports of Auckland Limited (POAL)

POAL paid a \$23.8 million interim dividend in February 2018, making a total \$49.9 million dividend income for this year. This is \$11.6 million higher than the annual plan budget (\$38.2 million) with most of this increase occurring via the tax benefit from Auckland Council group.

Features for the quarter include:

- Overall POAL volumes were below last year and YTD budget. It has been a challenging quarter, mainly due to the Brown Marmorated Stink Bug (BMSB) issue on used cars imported from Japan. This has resulted in vessels being turned away and subsequent delays in processing of vehicles when they do arrive in Auckland. This has also impacted total breakbulk volumes for oversized out of gauge import RORO machinery.
- For the nine months to March 2018 POAL's revenue was up on last year and slightly below YTD budget. Car wharfage revenue was impacted in Quarter three with the stink bug infestation issue. However, stronger demurrage and longer berthage has held up the Revenue. The YTD revenue also includes Nexus Logistics and Conlinxx revenue consolidation subsequent to purchase in May 2017. Nexus Group was part of POAL's equity accounted investments (Other EBIT) up to April 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 during the first half year, and increases in supply chain, legal and professional costs.
- POAL has spent \$89.1 million on capex projects for the nine months to March 2018, being \$40.8 million behind the YTD budget (\$129.9 million). The full year capex budget is \$184.3 million, 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. The projects for Intelligent Terminals are underway but commenced later than planned with unspent budget to be carried forward to next year.

- The Lost Time Injury rate was zero for the quarter ended 31 March 2018 (one for the same quarter last year).

4. Future outlook

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

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 Q3 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
March quarterly CCO report	N/A	Completed		ACIL Q3 CCO report submitted to Council on time.
2018 - 2021 SOI	N/A	Completed		ACIL SOI draft submitted to Council on time.
Support on proposal to dis-establish ACIL	N/A	On going		Co-operated with Council officials by providing information and other items relating to the Mayoral proposal to dis-establish ACIL

*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 final SOI to Council on time
Year-end statutory financial reporting	To complete the year-end 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 Mar 2018	ACIL Parent Budget YTD 31 Mar 2018	Variance	ACIL Parent Full year Budget 2018	ACIL Parent Full year Forecast 2018
<u>Operational</u>					
Revenue	77.8	65.4	12.5	92.5	92.5
AC funding	0.0	0.0	0.0	-	-
Expenditure excluding interest	0.6	0.9	0.4	1.3	1.3
Interest expense	0.0	0.0	0.0		
Net surplus after tax	77.3	64.4	12.8	91.2	91.2
Dividend to Council	23.0	0.0	23.0	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.