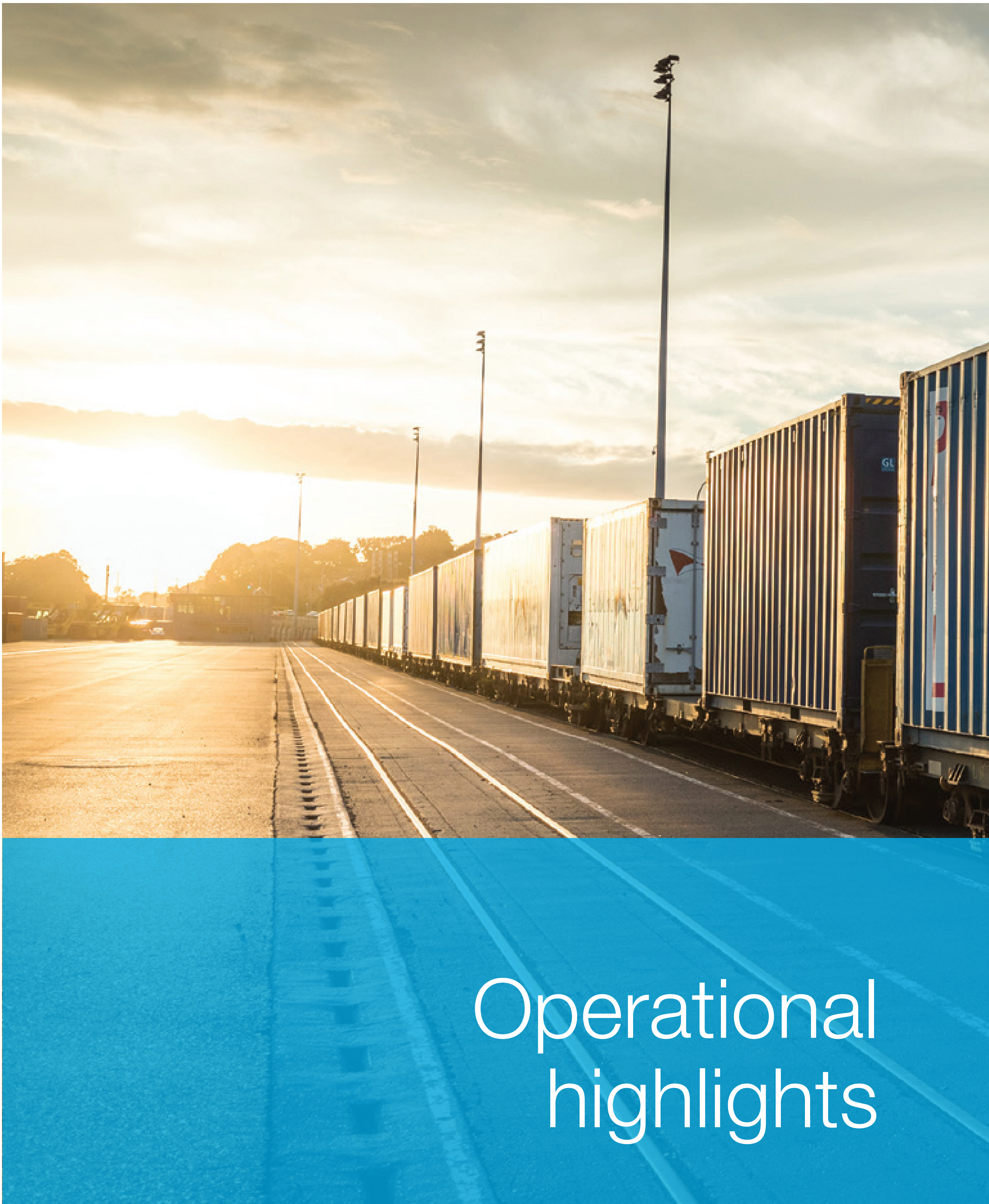
PORTS OF AUCKLAND

TĀMAKI HERENGA WAKA

Interim Report

For the six months ended **31 December 2016**



Operational highlights

CAR VOLUME

145,883

UP 17.6%

Breakbulk volume up 8.8% to

3.26m TONNES

TOTAL SHIP CALLS

788

compared with 785 in the same period last year

CRUISE SHIP CALLS

28

compared with 31 in the same period last year

Container volume (TEU) up 4% to

493,665

CRANE RATE (WATERLINE)

Averaged 34.97 MOVES PER HOUR

compared with 36.4 moves per hour for the same period last year

We are pleased to announce a strong performance for the six months to 31 December 2016. We have delivered growth and productivity remains a key focus.

Economic performance

We continue to make significant economic and social contributions to Auckland and New Zealand, delivering a $25.3 million dividend to Auckland ratepayers despite the ongoing difficult international shipping and trading environment.

Trading profit before tax is $2.1 million higher than in the same period last year; however, the reported unaudited net profit after tax (NPAT) of $29.3 million is down from $31.6 million. This decrease is primarily the result of prior-period tax charges due to changes to the amount of the loss offset from Auckland Council.

Debt has increased by $51.9 million compared with the same period last year, reflecting the increased investment that has been made in the port and the supply chain. In order to support this ongoing investment new banking arrangements have been put in place. This investments will allow us to support Auckland's rapid growth and build a more efficient North Island supply chain.

The New Zealand Transport Agency (NZTA) has provided Ports of Auckland with notice to acquire the Port of Onehunga and Pikes Point properties under the Public Works Act 1981 for use in the construction of the East-West Link. Ports of Auckland is in negotiation with NZTA for the sale of both properties, which have been reclassified as held for sale.

Cargo Volume through our multi-cargo wharves (Captain Cook, Bledisloe, Jellicoe and Freyberg) is up 8.8% compared with the same period last year, to 3.26 million tonnes. Cement and steel volumes are strong on the back of infrastructure demands in the Auckland region. Exports of iron sand have continued to decline, although these have been offset by increases in coal import volume and scrap metal export shipments. We have also seen good growth in what is called 'high & heavy' cargo: large vehicles such as construction equipment, trucks and buses, and also project cargo. This cargo is brought here on roll-on, roll-off vessels, more commonly known as car carriers.

Car volume is up 17.6% to 145,883 units, with the strength of this market surprising even industry insiders.

Car volume is up 17.6% to 145,883 units, with the strength of this market surprising even industry insiders. For comparison, in 2011/12 the ful-year volume was 147,221. We expect this growth to moderate slightly in the second half of the financial year, with volume forecast to be up by around 15%. This is still a significant increase in volume, which puts pressure on capacity at all our multi-cargo wharves. While we have been able to make big gains in efficiency by working with the industry, if the growth continues at this rapid pace we will need to invest in more capacity.

Total container volume through the port is up 4% compared with the same period last year, to 493,665 TEU (20-foot-equivalent units) and is ahead of expectations.

Our multi-cargo wharves recorded strong growth in container volume, which are up by almost 10% as a result of increased trade with the Pacific islands. Ports of Auckland is a hub for many Pacific island shipping services, which are vital to supplying these communities.

Volume through Fergusson Container Terminal is up 3.2% as a result of strong performance in import volume. This is a sign of continuing strength in the Auckland and New Zealand economies.

Export volume is marginally ahead of the same period last year. Volumes were boosted late in the second quarter by a significant increase in coastal trade as a result of the Kaikōura earthquake cutting road and rail links in the upper South Island. We expect this increase to continue into the second half of the year.

Our multi-cargo wharves have recorded strong growth in container volumes, which are up by almost 10%.

At 788, ship calls are up slightly, compared with the same period last year, largely due to an increase in multi-cargo ship calls and navy vessels visiting for the International Naval Review. Container ship calls are down 14%, a reflection of increasing ship size.

The container industry is facing ongoing difficulties caused by ship construction outstripping trade growth. The resulting overcapacity has led to a significant consolidation of shipping services internationally, which is also affecting ports. In New Zealand, this consolidation could result in one shipping line, Maersk, becoming dominant, with an estimated 50% of the market share after its proposed acquisition of Hamburg Süd. Although there are some signs that the supply/demand imbalance in container shipping may be correcting, global uncertainty around trade policy in some areas means we remain cautious in our outlook.

Sustainable innovation & productivity

We are focused on making further improvements to our capability and capacity through innovation and technology.

We are partially automating the container terminal and will be the first New Zealand port to do so. Automation improves sustainability, reduces costs and makes us even more competitive, delivering a significant strategic advantage. When fully implemented in 2019, this stage of automation will increase our terminal capacity from just over 900,000 TEU a year to 1.6-1.7 million TEU annually. That is enough to support an Auckland population of around 2.7 million. In other words, this technology gives us an additional 30-40 years of capacity, with scope for further capacity enhancements to support an even bigger population, if needed. Automated straddle carriers will use up to 10% less fuel, require less light and operate more quietly, reducing our impact on neighbouring communities.

We progressed with this automation project following a year of consultation with employees and unions. We are mindful of the potential impacts of automation on jobs and are working with employees and their families and communities to provide support, including retraining.

The port's work on the final stage of our long-standing Fergusson Container Terminal expansion and reclamation continues and is due to be completed in 2020.

REVENUE UP 4% TO

$110.5m

Unaudited trading profit before tax

$36.9m

UP 5.89%

Tony Gibson,
Chief Executive

DECLARED DIVIDEND

$25.3m

COMPARED WITH $25.9M IN THE SAME PERIOD LAST YEAR

We have set ourselves the goals of becoming carbon neutral by 2025 and having zero emissions by 2040. Our sustainability operating principles are that activity must be conducive to good customer and stakeholder relationships, contribute to a financially sound operation and be environmentally friendly.

When upgrading equipment we actively seek more sustainable options. For example, we took delivery of our first hybrid capstan truck used in mooring ships, and our new pilot boat uses a third less fuel than the old boat.

A voluntary joint initiative with shipping lines to reduce shipping speeds by 25% to protect the Bryde's whales in the Hauraki Gulf has been successful, with no whale deaths from ship strike in the past two years.

We have adopted a sustainable approach to the development of the Waikato inland port hub. More than four hectares of the 33-hectare site will be planted with natives, providing habitat for local wildlife, and improvements to an on-site stream are being made. Where practical, solar power paired with energy storage will be used to provide 24/7 renewable energy, and LED lighting and other energy-efficient technology will be used.

We have also commissioned a feasibility study to look at shore-based methods for powering cruise ships when in port, to reduce locally generated emissions and shipping's carbon footprint, supporting Auckland Council's carbon reduction goals.

It is our ambition to be the most sustainable port in New Zealand and to be a pioneer in sustainability within the industry.

Strategic relationships & partnerships

Strategic partnerships and alliances underpin our success and make our operation stronger.

We are continuing to build our inland freight hub network. By creating a network of freight hubs across the North Island and by partnering with Napier Port, we are seeking to keep freight costs down and offer North Island exporters and importers access to a wider range of shipping services. An efficient supply chain supports employment by making New Zealand goods more competitive overseas, and helps consumers by keeping the transport costs for imports low.

As part of our strategic alliance with Napier Port we are working together to share best practice in port operations and on developing innovative solutions for the North Island supply chain. This alliance strengthens the positions of both companies and there are many more opportunities to be realised.

Construction has commenced on our Waikato inland port located in New Zealand's fastest-growing region. The Waikato Freight Hub will be port neutral and has excellent rail and road links to our existing hubs in South Auckland, Mount Maunganui and Manawatū. The first freight handling facilities are expected to be in service by early 2018. When fully operational the hub will provide 300 jobs directly and facilitate many thousands more jobs by acting as an economic catalyst. Ports of Auckland has already had significant interest from cargo owners in using the site.

Strategic partnerships and alliances underpin our success and make our operation stronger.

Ports of Auckland moved quickly following the Kaikoura earthquake to partner with Pacifica, ANL and other international lines to provide coastal shipping services for freight that would previously have been carried by road and rail to people in the South Island.

Freight demand on New Zealand's busiest domestic sea route, Auckland to Christchurch, doubled after the earthquake and there is further capacity available. The earthquake demonstrated the need for resilience in the supply chain and responsible investment in New Zealand ports.

We are also partnering with KiwiRail to provide a fast, sustainable connections and increased freight capacity between Auckland and the lower North Island to help take pressure off the road network and help importers and exporters affected by the closure of CentrePort. We will continue to help where we can until CentrePort is back on its feet.

The port supports the cruise industry through the provision of berthage, marine, and logistics services. Cruise services operate from Princes Wharf, owned by Ports of Auckland, and Queens Wharf, owned by Auckland Council.

Auckland Council is currently considering how to accommodate larger ships safely and efficiently at Queens Wharf, the main cruise terminal.

Cruise visits were down in the first half compared with the year prior, but we are expecting the total for the year to be slightly up. The industry is performing well and making a significant contribution to the local economy. Each cruise ship visit boosts the Auckland economy by around $1.5 million.

There is potential to grow Auckland's cruise industry further. There is significant latent demand from cruise lines for facilities that would allow larger ships to berth and enable more 'exchange' or turnaround visits. Exchange visits require more provisioning and result in a higher number of visitor nights in the city, boosting the local economy.

Auckland Council is currently considering how to accommodate larger ships safely and efficiently at Queens Wharf, the main cruise terminal.

Community engagement

Ports of Auckland is actively involved in the community. For the past four years, we've opened our doors to the public through the SeePort festival, held at Auckland Anniversary Weekend. This year more than 50,000 people enjoyed exploring the port and the range of experiences on offer.

Planning is well underway for Ports of Auckland Round the Bays in March. This is the eighth year in which we have supported this waterfront event, which attracted more than 25,000 participants last year and raised over $200,000 for charity. Ports of Auckland is grateful to the many staff who assist at SeePort and participate in Round the Bays – this year our staff and family team will number around 1,000.

In September-October 2016 we helped to celebrate our city's rich maritime history as part of Auckland Council's Auckland Heritage Festival, by sponsoring steam tugboat tours aboard the historic William C Daldy steam tug – one of the port's first tugboats, dating back to 1935.

We are proud to have partnered with SCOUTS New Zealand since 2014, providing sails for Sea Scouts and supporting a regional development manager in Auckland. Our support is helping to drive membership growth.

Safe & empowered people

Our people are central to our success. Six out of 10 permanent staff have chosen to work at the port for longer than four years and we're proud of this.

The automation project at our container terminal reflects the changes that technology will bring, not just to our port but to our whole community. Rapid technological change is one of the biggest challenges facing our society. We believe businesses like ours have a responsibility to help staff and their families to adapt to these changes. As part of our automation project we have offered to retrain people who may be affected when it goes live in 2019. We are also looking to host Future of Work courses for our employees and their families and communities to help them navigate future changes and opportunities.

NEW BANKING ARRANGEMENTS PUT IN PLACE

DEBT UP BY
$51.9m

NET PROFIT AFTER TAX
$29.3m
COMPARED TO $31.6M FOR THE SAME PERIOD LAST YEAR

Our health and safety team have worked with operational colleagues to identify and assess the critical risks and associated controls within the business, including those faced by third-party operators on the port. This will allow us to address our risks further and evaluate our performance.

Raising the visibility of health and safety within operations has resulted in a significant decrease in incidents and accidents. Recognition for good safety behaviour has also been linked to an increasing awareness of safety within operations and a greater awareness and reporting of hazards.

In the six months to 31 December 2016 we have had:

- One Lost Time Injury (LTI) compared with two LTIs in the prior period
- 15 medical treatment injuries (MTIs) compared with 22 MTIs last financial half-year
- An increase in hazard reports (115 compared with 63 the year before)
- 41 near misses, compared with 66 in the same period last year.

We have also given 39 Safety Commendations to staff and contractors under a new initiative to promote safety awareness.

We have a strong commitment to diversity and inclusion and opening up opportunities for women. Just over 25% of our workforce are women, up from only 11% in 2010/11.

We are committed to operating a sustainable, world-class port that meets the needs of customers, importers, exporters and the growing Auckland population. By continuing to invest in our people and in technology that improves our efficiency we will be able to continue to support economic growth, job creation and communities in Auckland and New Zealand for many decades to come.

Liz Coutts
Chair

Tony Gibson
Chief Executive

Interim financial statements

Income statement

For the six months ended 31 December 2016

	NOTES	GROUP 31 DECEMBER 2016 UNAUDITED $'000	GROUP 31 DECEMBER 2015 UNAUDITED $'000
Revenue	1	**110,547**	106,140
Expenses			
Employee benefit expenses	2	**(29,315)**	(30,124)
Other operating expenses	2	**(26,621)**	(23,154)
Depreciation and amortisation	5	**(12,042)**	(12,047)
Finance costs	3	**(5,667)**	(5,967)
Total expenses		**(73,645)**	(71,292)
Trading profit before income tax		**36,902**	34,848
Impairment of advances		**(1,000)**	-
Share of profit from equity-accounted investments		**284**	698
Profit before income tax		**36,186**	35,546
Income tax expense	4	**(6,915)**	(3,897)
Profit for the period		**29,271**	31,649

Statement of comprehensive income

For the six months ended 31 December 2016

	GROUP 31 DECEMBER 2016 UNAUDITED $'000	GROUP 31 DECEMBER 2015 UNAUDITED $'000
Profit for the period	**29,271**	31,649
Other comprehensive income		
Cash flow hedges, net of tax	**4,425**	(351)
Net change in fair value of equity securities	**4,356**	82
Other comprehensive income net of income tax	**8,781**	(269)
Total comprehensive income	**38,052**	31,380

These financial statements were approved by the Board on 17 February 2017.

Signed on behalf of the Board by:

E.M. Coutts
Director

S. Haydon
Director

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZSRE 2410, issued by the External Reporting Board. The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

Statement of financial position

As at 31 December 2016

	NOTES	GROUP 31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000	30 JUNE 2016 AUDITED $'000
Current assets				
Cash and cash equivalents		**1,192**	412	360
Trade and other receivables		**31,027**	25,850	32,470
Inventories		**4,576**	4,486	3,797
Tax receivable		**-**	-	108
Derivative financial instruments		**348**	-	-
Assets classified as held for sale	6	**56,069**	18,394	24,194
Total current assets		**93,212**	49,142	60,929
Non-current assets				
Trade and other receivables		**2,359**	-	-
Property, plant and equipment	5	**778,623**	654,344	752,878
Intangible assets		**20,749**	19,133	18,994
Investment properties	7	**111,936**	114,083	149,105
Equity securities		**29,588**	23,506	25,232
Investments and advances		**5,700**	9,068	5,992
Derivative financial instruments		**1,235**	-	-
Total non-current assets		**950,190**	820,134	952,201
Total assets		**1,043,402**	869,276	1,013,130
Current liabilities				
Interest-bearing liabilities	9	**-**	3,469	8,786
Trade and other payables		**35,816**	35,370	28,419
Tax payable		**787**	65	-
Provisions		**7,076**	9,175	7,022
Derivative financial instruments		**2,811**	1,025	3,579
Deferred income		**22**	20	21
Other current liabilities		**-**	19	-
Total current liabilities		**46,512**	49,143	47,827
Non-current liabilities				
Interest-bearing liabilities	9	**266,610**	214,697	246,767
Derivative financial instruments		**7,416**	6,171	11,210
Provisions		**1,170**	1,351	1,170
Deferred income		**611**	634	623
Deferred tax liabilities		**64,776**	60,841	63,552
Total non-current liabilities		**340,583**	283,694	323,322
Total liabilities		**387,095**	332,837	371,149
Net assets		**656,307**	536,439	641,981
Equity				
Share capital		**146,005**	146,005	146,005
Reserves		**187,946**	111,280	179,165
Retained earnings		**322,356**	279,154	316,811
Total equity		**656,307**	536,439	641,981

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Statement of changes in equity

For the six months ended 31 December 2016

GROUP	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP SHARE CAPITAL $'000	OTHER RESERVES $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2015	**146,005**	**111,549**	**263,764**	**521,318**
Profit for the period	-	-	31,649	31,649
Other comprehensive income	-	(269)	-	(269)
Total comprehensive income	-	(269)	31,649	31,380
Transactions with owners in their capacity as owners				
Equity dividends	-	-	(16,259)	(16,259)
Total other movements	-	-	(16,259)	(16,259)
Balance at 31 December 2015 unaudited	**146,005**	**111,280**	**279,154**	**536,439**
Balance at 1 July 2016	**146,005**	**179,165**	**316,811**	**641,981**
Profit for the period	-	-	29,271	**29,271**
Other comprehensive income	-	8,781	-	**8,781**
Total comprehensive income	-	8,781	29,271	**38,052**
Transactions with owners in their capacity as owners				
Equity dividends	-	-	(28,413)	**(28,413)**
Other movements	-	-	4,687	**4,687**
Total other movements	-	-	(23,726)	**(23,726)**
Balance at 31 December 2016 unaudited	**146,005**	**187,946**	**322,356**	**656,307**

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Statement of cash flows

For the six months ended 31 December 2016

	GROUP	
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Cash flows from operating activities		
Receipts from customers	**123,362**	119,666
Payments to suppliers and employees	**(70,399)**	(72,839)
Dividends received	**1,917**	1,817
Interest received	**21**	29
Interest paid	**(5,853)**	(5,754)
Income taxes paid	**64**	(48)
Net cash flows from operating activities	**49,112**	42,871
Cash flows from investing activities		
Purchase of subsidiary, net of cash acquired	**-**	(2)
Payments for investment property	**(3,521)**	-
Payment for intangible assets	**(3,195)**	(3,080)
Payments for property, plant and equipment	**(38,450)**	(32,035)
Advances to related parties	**(1,350)**	(50)
Proceeds from sale of investment properties	**15,435**	144
Net cash flows from investing activities	**(31,081)**	(35,023)
Cash flows from financing activities		
Proceeds from borrowings	**71,000**	160,000
Repayment of borrowings	**(51,000)**	(150,000)
Dividends paid	**(28,413)**	(16,259)
Net cash flows from financing activities	**(8,413)**	(6,259)
Net cash flows	**9,618**	1,589
Cash at the beginning of the period	**(8,426)**	(4,646)
Cash at the end of the period	**1,192**	(3,057)

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZSRE 2410, issued by the External Reporting Board. The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

Statement of cash flows (continued)

For the six months ended 31 December 2016

Reconciliation of profit after income tax to net cash flows from operating activities	GROUP 31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Profit for the period	**29,271**	31,649
Adjusted for:		
Depreciation and amortisation	**12,042**	12,047
Movements in borrowings allocated to interest paid	**(157)**	(320)
Tax expense settled for nil consideration	**4,687**	-
Movement in deferred revenue	**(10)**	(14)
Net (gain) / loss on sale of investments	**-**	2
Net (gain) / loss on sale of other non-current assets	**(929)**	(127)
Change in operating assets and liabilities:		
Trade and other receivables	**(5,139)**	(3,082)
Trade and other payables	**7,380**	(1,256)
Income tax payable	**894**	(1,435)
Deferred tax liability	**(497)**	1,315
Other provisions	**44**	(178)
Inventory	**-**	(3)
Other operating assets	**(778)**	(287)
Movement in associate and joint venture	**1,992**	597
Capital items included in working capital movements	**312**	3,963
Net cash flows from operating activities	**49,112**	42,871

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZSRE 2410, issued by the External Reporting Board. The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

Notes to the consolidated interim financial statements

Reporting entity and nature of operations

The interim financial statements presented are those of Ports of Auckland Limited (the Company) and its subsidiaries, associates and joint ventures (the Group) for the six months ended 31 December 2016. Ports of Auckland Group is a designated profit-oriented entity.

Statutory base

Ports of Auckland Limited is a company domiciled in New Zealand and registered under the Companies Act 1993, and prepares its financial statements in accordance with the Financial Reporting Act 2013.

The address of its registered office is Ports of Auckland Building, Sunderland Street, Mechanics Bay, Auckland 1010.

Basis of preparation

The interim financial statements have been prepared in accordance with generally accepted accounting practice (GAAP). The Company is a for-profit entity for the purpose of complying with GAAP. They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and consequently do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the Ports of Auckland Limited financial statements for the year ended 30 June 2016.

The interim financial statements for the six-month period ended 31 December 2016 and 31 December 2015 are unaudited. The comparative information for the year ended 30 June 2016 is audited.

The interim financial statements were approved by the Board of Directors on 17 February 2017.

Basis of measurement

The interim financial statements have been prepared on the historical cost basis, modified by the revaluation of property, plant and equipment, financial assets measured at fair value through other comprehensive income, derivative financial instruments and investment properties, and are presented in New Zealand dollars, which is the Company's functional currency. All values are rounded to the nearest thousand dollars ($'000).

Accounting policies

The accounting policies and methods of computation set out in these interim financial statements are consistent with those used in the financial statements for the year ending 30 June 2016.

Basis of consolidation

The consolidated financial statements include those of the Company and its subsidiaries, accounted for using the acquisition method, and the results of its associates and joint ventures, accounted for using the equity method.

All material intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Unrealised gains on transactions between the Group, associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

Subsidiaries, associates and joint venture companies

Subsidiaries are entities that are controlled either directly or indirectly by the Company.

Associates are those entities over which the Company holds a significant but not controlling interest. Joint ventures are entities whose activities are jointly controlled by the Group and the Group has rights to the net assets of the entities. Investments in associates and joint ventures are accounted for using the equity method and are measured in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets. Goodwill relating to associates and joint ventures is included in the carrying amounts of the investments. Dividends reduce the carrying values of the investments.

The amount recognised in the income statement reflects the Group's share of earnings of associates and joint ventures.

Investments in associates and joint ventures are carried at the lower of the equity accounted amounts and the recoverable amounts. When the Group's share of accumulated losses in an associate or joint venture equals or exceeds its carrying value, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Goods and services tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Cash flows are included in the cash flow statement on a gross basis, and the GST component of cash flows arising from investing and financing activities is classified as part of operating activities.

Critical accounting estimates and assumptions

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, and are reviewed on an ongoing basis. Actual results may differ from those estimates.

In preparing these financial statements, the significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation and uncertainty, were the same as those applied to the Group's consolidated financial statements for the year ended 30 June 2016.

1. Revenue

	GROUP	
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Revenue		
Port operations income	**106,185**	103,250
Rental income	**2,767**	2,158
Gain on disposal of property, plant and equipment	**933**	144
Dividend income	**641**	559
Interest income	**21**	29
Total revenue	**110,547**	106,140

2. Operating expenses

	GROUP	
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Employee benefit expenses		
Salaries and wages	**28,215**	29,018
Restructuring costs	**75**	16
Pension costs	**1,025**	1,090
Total employee benefit expenses	**29,315**	30,124
Other operating expenses		
Contracted services	**9,029**	8,058
Repairs and maintenance	**8,326**	6,780
Fuel and power	**2,023**	2,317
Other expenses	**7,047**	5,867
Auditor's fees		
Audit fees	**118**	132
Other assurance services	**78**	-
Total other operating expenses	**26,621**	23,154

Comparatives for the prior period have been changed. The impact of the change is within 'Employee benefit expenses' updated to $30,124,000 (2015: $29,259,000) and reflects classification changes from 'Contracted services' of $384,000 and 'Other expenses' of $481,000.

3. Finance costs

	GROUP	
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Finance costs		
Interest and finance costs	**5,667**	5,967
Total finance costs	**5,667**	5,967

4. Income tax

	GROUP	
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Income statement		
Current income tax		
Current year	**10,966**	9,905
Adjustment for prior years	**1,955**	(1,558)
Loss offset utilisation	**(4,764)**	(5,044)
Tax credit utilisation	**(745)**	(722)
Deferred income tax		
Temporary differences	**(339)**	452
Adjustment for prior years	**(158)**	864
Income tax expense	**6,915**	3,897
Statement of changes in equity		
Cash flow hedges	**1,721**	(136)
Income tax reported in equity	**1,721**	(136)

	GROUP	
Reconciliation of effective tax rate	**31 DECEMBER 2016 UNAUDITED $'000**	31 DECEMBER 2015 UNAUDITED $'000
Profit / Loss before income tax	**36,186**	35,546
Tax at 28%	**10,132**	9,953
Adjustments		
Non-deductible expenses	**217**	235
Adjustment for prior years	**1,798**	(693)
Loss offset utilisation	**(4,764)**	(5,044)
Tax credit utilisation	**(745)**	(722)
Sundry items	**277**	168
Income tax expense	**6,915**	3,897

The Company utilises losses from the Auckland Council Group.

A subvention payment and loss offset election agreement with Watercare Services Limited has been agreed for the 2017 tax period.

Tax loss benefits were utilised from Auckland Council Investments Limited and sub group entities, Auckland Tourism, Events & Economic Development, Auckland Transport, Panuku Development Auckland Limited, Auckland Council and Watercare in the 30 June 2016 year. The difference between the tax loss benefits estimated in the 30 June 2016 financial statements and the actual tax losses utilised in the 2016 tax return gave rise to a prior-year adjustment.

5. Property, plant and equipment

	GROUP						
	FREEHOLD LAND $'000	WHARVES $'000	FREEHOLD BUILDINGS $'000	PLANT AND EQUIPMENT $'000	PAVEMENT $'000	OTHER $'000	TOTAL $'000
Net book value at 1 July 2015	**232,785**	**236,287**	**28,980**	**94,427**	**63,789**	**10,366**	**666,634**
Movement							
Additions	-	7,250	163	4,980	3,903	725	17,021
Disposals	-	-	-	-	-	(17)	(17)
Assets held for sale	(7,770)	(8,465)	(1,145)	(26)	(872)	(116)	(18,394)
Depreciation charge	-	(1,803)	(385)	(6,910)	(697)	(1,105)	(10,900)
Movement to 31 December 2015	(7,770)	(3,018)	(1,367)	(1,956)	2,334	(513)	(12,290)
Balances							
Cost	225,015	216,996	27,971	226,322	73,421	37,073	806,798
Work in progress at cost	-	18,054	163	6,809	5,465	2,188	32,679
Accumulated depreciation	-	(1,781)	(521)	(140,660)	(12,763)	(29,408)	(185,133)
Net book value at 31 December 2015 unaudited	**225,015**	**233,269**	**27,613**	**92,471**	**66,123**	**9,853**	**654,344**
Net book value at 1 July 2016	**309,068**	**255,613**	**26,278**	**90,729**	**60,159**	**11,031**	**752,878**
Movement							
Additions	-	23,241	-	10,828	463	1,804	**36,336**
Disposals	-	-	-	(4)	-	-	**(4)**
Depreciation charge	-	(1,863)	(355)	(6,435)	(692)	(1,242)	**(10,587)**
Movement to 31 December 2016	-	21,378	(355)	4,389	(229)	562	**25,745**
Balances							
Cost	309,068	230,116	26,500	229,644	73,611	41,592	**910,531**
Work in progress at cost	-	48,827	-	17,392	466	1,704	**68,389**
Accumulated depreciation	-	(1,952)	(577)	(151,918)	(14,147)	(31,703)	**(200,297)**
Net book value at 31 December 2016 unaudited	**309,068**	**276,991**	**25,923**	**95,118**	**59,930**	**11,593**	**778,623**
Net book value at 1 July 2015	**232,785**	**236,287**	**28,980**	**94,427**	**63,789**	**10,366**	**666,634**
Movement							
Additions	-	21,689	76	10,127	2,680	3,111	37,683
Disposals	-	-	-	-	-	(17)	(17)
Impairment	-	1,423	-	-	-	-	1,423
Revaluations - reserves	65,883	8,199	(224)	-	-	-	73,858
Revaluations - income statement	18,170	72	(658)	-	-	-	17,584
Assets held for sale	(7,770)	(8,465)	(1,145)	(27)	(872)	(115)	(18,394)
Reclassifications / Transfers	-	-	-	-	(4,049)	-	(4,049)
Depreciation charge	-	(3,592)	(751)	(13,798)	(1,389)	(2,314)	(21,844)
Movement to 30 June 2016	76,283	19,326	(2,702)	(3,698)	(3,630)	665	86,244
Balances							
Cost	309,068	230,116	26,500	230,574	73,611	40,366	910,235
Work in progress at cost	-	25,586	-	7,702	3	1,282	34,573
Accumulated depreciation	-	(89)	(222)	(147,547)	(13,455)	(30,617)	(191,930)
Net book value at 30 June 2016 audited	**309,068**	**255,613**	**26,278**	**90,729**	**60,159**	**11,031**	**752,878**

6. Assets classified as held for sale

	GROUP		
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000	30 JUNE 2016 AUDITED $'000
Land	**35,111**	7,770	7,770
Buildings, wharves and improvements	**20,958**	10,624	10,624
Investment properties - land	**-**	-	5,800
Balance at 31 December (30 June)	**56,069**	18,394	24,194

The New Zealand Transport Agency (NZTA) has provided Ports of Auckland with notices to acquire the Port of Onehunga and Pikes Point properties required under the Public Works Act 1981 for use in the construction of the East-West Link.

7. Investment properties

	GROUP		
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000	30 JUNE 2016 AUDITED $'000
At fair value			
Balance at 1 July	**149,105**	103,011	103,011
Capitalised subsequent expenditure	**5,408**	11,072	39,532
Disposals	**(4,902)**	-	(3,900)
Reclassificiations / Transfers	**-**	-	4,049
Assets held for sale	**(37,675)**	-	(5,800)
Net gain / (loss) from fair value adjustment	**-**	-	12,213
Balance at 31 December (30 June)	**111,936**	114,083	149,105

Capital expenditure for the period includes the cross-dock facilities at the South Auckland Freight Hub and enabling works at the Waikato Freight Hub.

The Pikes Point property is under negotiation to be sold to NZTA for use in the construction of the new East-West Link; therefore it has been reclassified as held for sale.

8. Capital commitments

	GROUP		
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000	30 JUNE 2016 AUDITED $'000
Property, plant and equipment			
Property, plant and equipment	**1,700**	3,445	440
Northern berth	**12,734**	43,567	33,277
Tug berth	**1,233**	4,299	1,618
Automation	**59,798**	-	-
Total property, plant and equipment	**75,465**	51,311	35,335
Investment properties			
South Auckland Freight Hub	**3,003**	6,689	5,772
Waikato Freight Hub	**3,850**	-	3,926
Total investment properties	**6,853**	6,689	9,698
Total capital commitments	**82,318**	58,000	45,033

Capital commitments for property, plant and equipment include:

- The Fergusson Container Terminal expansion, which commenced in 2001. This includes the reclamation and construction of the northern berth which is capable of taking vessels of up to 300 metres in length. Completion is due in the 2018 financial year.
- The intelligent terminals project enabling the partial automation of the Fergusson Container Terminal
- A tug berth between the Bledisloe and Jellicoe Wharves capable of taking four tugs. Construction is due for completion in this financial year.

Capital commitments for investment property include cross-dock facilities at the South Auckland Freight Hub and enabling works at the Waikato Freight Hub.

9. Interest bearing liabilities

	GROUP						
	31 DECEMBER 2016 UNAUDITED			31 DECEMBER 2015 UNAUDITED			30 JUNE 2016 AUDITED
	AVAILABLE $'000	**DRAWN $'000**	**UNDRAWN $'000**	AVAILABLE $'000	DRAWN $'000	UNDRAWN $'000	DRAWN $'000
Current							
Unsecured							
Bank overdraft	**10,000**	**-**	**10,000**	10,000	3,469	6,531	8,786
Total current interest-bearing liabilities	**10,000**	**-**	**10,000**	10,000	3,469	6,531	8,786
Non-current							
Unsecured							
Other bank loans	**540,000**	**266,610**	**273,390**	440,000	214,697	225,303	246,767
Total non-current interest bearing liabilities	**540,000**	**266,610**	**273,390**	440,000	214,697	225,303	246,767
Total interest-bearing liabilities	**550,000**	**266,610**	**283,390**	450,000	218,166	231,834	255,553

On 30 November 2016 amendment agreements were signed with ANZ Bank New Zealand Limited, Commonwealth Bank of Australia (CBA) and Bank of Tokyo-Mitsubishi UFJ, Limited which increased the facility limit with all banks by $100 million and extended the term with CBA by two years.

10. Commitments

	GROUP	
	31 DECEMBER 2016 UNAUDITED $'000	31 DECEMBER 2015 UNAUDITED $'000
Operating lease commitments: Group as lessee *(i)*		
Within one year	**960**	646
Greater than one year but not more than five years	**2,503**	1,996
Total operating lease commitments	**3,463**	2,642
Operating lease commitments: Group as lessor *(ii)*		
Within one year	**5,120**	8,104
Greater than one year but not more than five years	**14,688**	18,056
More than five years	**35,121**	43,470
Total operating lease commitments	**54,929**	69,630

(i) The Group leases land and premises under a non-cancellable operating lease agreement. The lease reflects normal commercial arrangements with escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

(ii) The majority of operating leases relate to investment property owned by the Group with lease terms of between 1 and 17 years. Further operating leases relating to buildings within port operational boundaries, included in property, plant and equipment, owned by the Group have lease terms of between 1 and 25 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

11. Events occurring after the reporting period

An unimputed interim dividend of 17.30 cents per ordinary share, totalling $25,254,000 was declared on 17 February 2017 for payment on 24 February 2017, in accordance with the Group's dividend policy.

Independent review report

Deloitte.

TO THE SHAREHOLDERS OF PORTS OF AUCKLAND LIMITED

We have reviewed the consolidated interim financial statements of Ports of Auckland Limited ('the company') and its subsidiaries ('the group') which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 10 to 21.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the consolidated interim financial statements, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is also responsible for the publication of the consolidated interim financial statements, whether in printed or electronic form.

Our Responsibilities

The Auditor-General is the auditor of the Group pursuant to section 5(1)(f) of the Public Audit Act 2001. Pursuant to section 32 of the Public Audit Act 2001, the Auditor-General has appointed Bryce Henderson of Deloitte Limited to carry out the annual audit of the Group.

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting.* As the auditor of Ports of Auckland Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the consolidated interim financial statements.

In addition to this review and the audit of the Group annual financial statements, our firm carries out other assignments in the areas of other assurance services which are compatible with the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. These services have not impaired our independence as auditor of the Group. Other than these assignments, we have no relationship with or interests in Ports of Auckland Limited or its subsidiaries.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

Bryce Henderson
Partner

For Deloitte Limited

On behalf of the Auditor-General
17 February 2017
Auckland, New Zealand