PORTS OF AUCKLAND
TĀMAKI HERENGA WAKA

REBUILDING OUR ECONOMY

2020 Annual Report


HS BIZET
MONROVIA

PROUD TO BE AUCKLAND'S PORT

We are proud to be Auckland's port, bringing in goods that support Auckland's economy and way of life. Globally, 2020 has been a challenging year for every part of the economy. Ports of Auckland is committed to working together to rebuild our economy, supporting our city and regional New Zealand.

Welcome to Ports of Auckland's 2020 Integrated Report

This report has been prepared to ensure our stakeholders – the people of Auckland, and our customers and partners around regional New Zealand – have an opportunity to find out more about their port. This year has been challenging for all businesses and sectors as we have faced unprecedented events. We are proud of the essential role we have played through New Zealand's COVID-19 response, and are committed to working with Government, business and our community to rebuild our economy.

This year we have continued on our integrated reporting journey. This report highlights the importance we place on the views of our stakeholders: our employees, our customers, our shareholder and our community. We are focused on telling a complete story which extends beyond financial reporting to include our social and environmental performance and reflect our integrated thinking. We continue to use the International Integrated Reporting Framework of the International Integrated Reporting Council. We have also considered the Global Reporting Initiative standards and approach to materiality.

We are committed to being open and transparent with all of our stakeholders and provide much more information about Ports of Auckland and our operations on our website, www.poal.co.nz.

Scope and boundary

Our Annual Reports are produced and published each year; this one covers the period 1 July 2019 to 30 June 2020. The scope of our report includes all core activities of our business, located in Auckland and across regional New Zealand. We outline our materiality process on page 29. Topics are deemed material if they have the potential to substantively affect our ability to create and protect value for the port and our stakeholders in the short, medium and long terms. In the past year we have continued our focus on engaging more openly and transparently with our stakeholders, including the community and local iwi.

Assurance

The Group Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice.

The Group Financial Statements are included on pages 41-88. Our financial statements have been audited by Deloitte Limited, which has been appointed by the Auditor-General, and the auditor's report can be found on pages 39-40.

Board approval

In the Board's opinion, Ports of Auckland's 2020 Annual Report provides a fair and balanced account of our performance on the material matters determined to influence our ability to create value. This report, including the Group Financial Statements for the year ended 30 June 2020, was approved by the Board of Directors on 17 August 2020, and signed on its behalf by:

EM Coutts

Liz Coutts Chair
17 August 2020

SHaydon

Sarah Haydon Director
17 August 2020

2020 HIGHLIGHTS

880,781
TOTAL CONTAINERS MOVED – TEU*

216,356
CARS HANDLED

258,444
CRUISE SHIP PASSENGERS MOVED BEFORE COVID-19 LOCKDOWN

103,989
CONTAINERS MOVED BY RAIL

Consent granted for channel deepening to handle larger shipping lines

New Zealand's first automated port, creating capacity to handle Auckland's growth for the next 50 years

Welcomed more than **60,000 Aucklanders** to our SeePort open weekend for the 7th year

Welcoming Aucklanders to the waterfront with our new **car handling building** with hanging garden and public park

*1 TEU = 1 standard 20-foot container

CHAIR'S STATEMENT

The 2020 financial year has been interesting and challenging for Ports of Auckland.

It has been a year of two halves. The first half we were making very good progress with our investment upgrade programme; the second half was dominated by the impact of the novel coronavirus pandemic (COVID-19).

The company's response to COVID-19 was exceptional. Our priorities were to keep our people safe and to ensure that essential freight continued to flow to the people of Auckland and the rest of New Zealand, and we delivered. We also took on a leadership role, working with industry stakeholders and Government ministries to keep our borders open to freight and closed to the virus. I am proud of the achievements of our people during this time and the Board thanks them for their outstanding efforts and everything they did.

Despite the interruption from COVID-19, good progress has been made on our 30-year master plan and its associated investment programme. The three big projects underway at present – automation, construction of a new car handling building and an application for consent to deepen Auckland's shipping channel – are all progressing well.

Our financial performance was adversely affected in the first half of the year by higher costs and lower volumes as we operated with reduced yard capacity while we undertook the automation project, and in the second half by the impact of COVID-19. Our response to COVID-19 involved incurring additional costs for personal protective equipment for staff and altering the way we worked during lockdown to safeguard both staff and our operations. Multi-cargo, cruise and container volumes were significantly affected as parts of the economy were closed down during the various Alert Levels, which had an adverse impact on profit.

COVID-19 has highlighted what is at the heart of our business. We are Auckland's port. It is a major infrastructure investment owned by the people of Auckland. We are here to serve the people of Auckland by ensuring the goods they want and need always get through. Our role is to deliver those goods quickly, efficiently and cost-effectively, which also means minimising the costs we impose on the environment and our surrounding community. We must also provide a financial return to the people of Auckland. We belong to Aucklanders, no-one else.

To meet those goals, we are looking far ahead into the future and planning to ensure security of supply for Aucklanders and appropriate financial contributions to the city. We operate in an uncertain environment, which is why our 30-year master plan is so important. Having this plan ensures that we are, as the saying goes, not like the seagull tossing and turning its head at every wave, but like the rock, steadfast against the surging sea.

One of the great uncertainties about being the port for Auckland is our location. For many years it has been a matter of debate, which has not been good for our business. I am pleased therefore that the latest report on this topic recently released by the Ministry of Transport provides such a sober and unbiased assessment of the situation. It found that all relocation options are more costly than leaving the port in its current location. It found that there is no urgent need to relocate because the port will not reach capacity until the 2050s. It also found that because of this capacity there is no urgency to push for a relocation decision. There is plenty of time to look thoroughly at all the options and make the right choice.

To give further reassurance I should point out that ‘reaching capacity’ does not mean the port will cease to function; it simply means it can’t grow. It could, if the people of Auckland wish it, continue to operate on its current site indefinitely, just with its capacity capped. When you look at it that way, it becomes clear that if the port is moved from its downtown site, it will be more to do with how it looks than how it works. And it will involve great cost to do so, reduced returns and adverse environmental impacts, depending on where it might be shifted to.

Ports of Auckland is committed to good governance. The Board is focused on providing strategic input to support management in delivering on our growth plans. We have a strong, diverse and well-balanced Board with strategic, commercial and operational experience across local and international markets. We have a number of long-serving and experienced Board members and over the next few years we will work on a succession plan to refresh the Board.

Despite the challenges of this year, Ports of Auckland is in an excellent position. We have a very strong team, we are trusted by our customers and our research shows we are consistently trusted by the majority of Aucklanders. I would like to thank my fellow Directors, our Chief Executive and our whole team for their contribution to a challenging yet positive year. As we look to the future, it appears that the global pandemic will be with us for some time and we must therefore continue to be vigilant and maintain our robust safety standards. At the same time, we look forward to finishing the delivery of our major upgrade projects and continuing to serve the needs of Auckland and the country as we rebuild our economy this year and in the years to come.

EM Coutts

Liz Coutts Chair

“

The company’s response to COVID-19 was exceptional. Our priorities were to keep our people safe and to ensure that essential freight continued to flow to the people of Auckland and the rest of New Zealand, and we delivered.

OUR BUSINESS MODEL

WHAT WE DO...

We move freight

Container handling: Nearly one million TEU (standard 20-foot containers) a year for importers and exporters

Multi-cargo handling: Half a million tonnes of cement, more than 200,000 cars, and more, to cater for Auckland's growth

Marine services: Safe and reliable tug and pilotage services to ships using our port and training expertise across New Zealand

We move people

Cruise ship support: More than 110 cruise ships, with 258,444 passengers, before our borders closed in March 2020

We connect regions to global markets

Regional supply chain: Logistics services directly to cargo owners anywhere in New Zealand, ensuring sustainable and efficient connections via our regional hubs and partner ports

...USING OUR RESOURCES AND RELATIONSHIPS...

Our people

The health, safety and wellbeing of our team are always our first priority. We recognise the port is a high-risk environment and this requires an unswerving focus at all times. We have also developed new protocols this year as we worked as an essential service throughout the COVID-19 lockdown.

Our assets and technologies

We are investing in our seaport and regional freight hubs to ensure a more efficient supply chain across New Zealand. In simple terms this means processing more cargo on a smaller footprint and using rail to take more trucks off the road.

Our community and business relationships

We have worked hard to improve our relationship with our local community and keep it informed of developments. We are also focused on supporting our business partners and customers to provide a cost- and time-efficient service.

...TO CREATE VALUE

Delivering goods to Aucklanders to support our growth and way of life

Supporting New Zealand and serving regional New Zealand's freight needs in the most efficient and sustainable way

Being an innovative and sustainable world-class port company with safe and empowered people

Our financial capital

We are in a period of investment as we transform our operations to process more cargo more efficiently on a small footprint. This investment ensures we can continue to deliver for a growing Auckland without expanding our footprint. During the investment period we anticipate paying a significantly reduced dividend.

Our knowledge and capabilities

We aspire to be a world-class innovator, looking for opportunities to use technology and data to improve how we work and to be more efficient. The content of most roles at the port will change as we automate and equipping our team to manage these changes is a high priority.

Our land and natural environment

As a port we rely on the use of the natural environment, and we also understand the impacts we have on that environment. We are committed to being a zero-emissions port by 2040. We are also focused on playing our part in supporting New Zealand as it moves towards a low-emissions future.

CHIEF EXECUTIVE'S REVIEW

It is hard to know how to describe this year. Standard phrases like 'challenging' or 'unprecedented' are true, but don't capture the full picture. To use a sporting analogy, it has been a year of two halves. The first half was as expected, the second anything but.

On 30 August 2020 a member of our port whānau, Pala'amo (Amo) Kalati, was fatally injured while working on a ship at Fergusson Container Terminal.

Everyone at Ports of Auckland is deeply affected by what has happened.

As a company and as individuals we would like to express our deepest condolences to Amo's family and friends. We will continue to provide support to Amo's family as they work through this terrible tragedy.

As an organisation we care deeply about the safety of our staff, which makes this event even more painful.

We will thoroughly examine our safety culture and practices and make the changes necessary to ensure this never happens again.

First-half volumes were in line with forecast; second-half volumes fell dramatically. In the first half we were on track for a record cruise season; in the second half cruise ships disappeared. In 2019 one report said we should shift to Northland; in 2020 another said we should stay put. To make sense of this I think we need to keep our eye on the horizon. Ports are not short-term businesses that should change direction with the wind. Yes, we need to be agile and prepared to adapt, but we live in a long-term environment. Port infrastructure takes a long time to build and lasts more than a lifetime. We must look far out into the future and plan accordingly.

In this context the current coronavirus pandemic is a bump in the road, and we've been here before. The global financial crisis in 2008 resulted in a fall in volume and revenue, but as a country we recovered and hit new heights. This is driven by longer-term trends such as urbanisation, globalisation and immigration, trends which still apply. Climate change has not disappeared either. That is why, as a business, we are still focused on delivering our 30-year master plan, to provide sustainable capacity for Auckland's freight growth to the middle of the century. And beyond if needed.

On that front we are doing well. Despite the interruption of the COVID-19 lockdown, we have made good progress with the three major master plan projects we currently have underway: container terminal automation, increasing car handling capacity and channel deepening. We have also made good progress with work to meet our goal of being zero emissions by 2040.

I must also mention our people's response to COVID-19. I cannot praise highly enough how well our port whānau

Ports of Auckland Executive team

(Front L-R): Lauren Salisbury, Chief Information Officer; Tony Gibson, Chief Executive Officer; Wayne Thompson, Chief Financial Officer and Deputy Chief Executive Officer; Rosie Mercer, General Manager Sustainability.

(Back L-R): Allan D'Souza, General Manager Marine, Engineering and General Wharf Operations; Matt Ball, General Manager Public Relations and Communications; Reinhold Goeschl, General Manager Supply Chain; Craig Sain, General Manager Commercial Relationships; Angelene Powell, General Manager Container Terminal Operations; Alistair Kirk, General Manager Infrastructure and Property.

> We are delivering our 30-year master plan, to provide sustainable capacity for Auckland's freight growth to the middle of the century, and beyond.

responded to this situation, working together to keep each other safe and to ensure Auckland's essential freight continued to be delivered. It was a truly exemplary response and I would like to sincerely thank everyone involved.

Automation

Most of the infrastructure work for the terminal automation project was completed by the second quarter of this financial year. There is some pavement remediation and other minor works to be carried out in the southern part of the terminal before full go-live, but the disruption and loss of capacity experienced during the height of the works are now behind us. Upgrading a live terminal is difficult, so to have this work finished is a great relief. It makes operating easier and as a result we did not see a repeat of 2018's congestion issues.

CASE STUDY

DELIVERING ESSENTIAL GOODS DURING NEW ZEALAND'S LOCKDOWN

During the COVID-19 lockdown Ports of Auckland continued to operate – ensuring that we kept essential goods, including food and medical supplies, flowing into our city and around the country.

Keeping our people safe

Keeping our people safe is always our first priority – and COVID-19 created additional challenges. We brought in a rigorous health screening process during Alert Levels 3 and 4, which included temperature screening for all workers before they could enter the port. We also split our stevedoring team into 13 'work bubbles' across two shifts. This meant we could contain risks within a bubble and ensure continuity of services.

A key focus was our marine pilots, who must guide ships safely in and out of port. They do their job from the visiting ship's bridge and in close contact with the crew. We brought in new safety protocols around physical distancing and PPE to ensure this highly specialised team would stay safe while they perform this hugely skilled and high-pressure role.

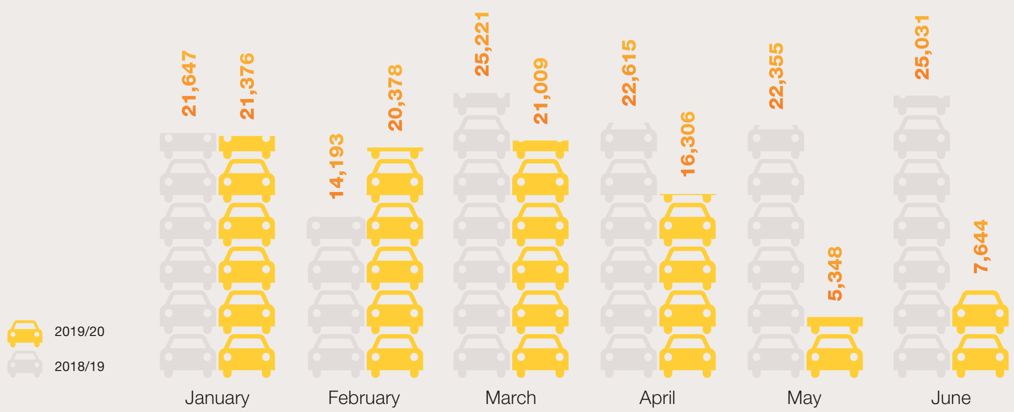
Keeping essential freight moving

We worked closely with the Government and industry to ensure New Zealand's essential goods continued to flow. During lockdown we handled 68,088 containers – an average of 9,726 per week. We recognised early that to keep essential goods moving we needed to move all freight. The port does not have the details of what is in every container, so all must be handled as if essential. We also had to ensure containers did not build up on the port to stop more freight coming in. This also ensured we had a supply of containers to keep New Zealand's exports goods flowing.

Rebuilding

As New Zealand's major gateway for imports, we are committed to working with Auckland and regional New Zealand importers and exporters to help rebuild our economy. We are focused on dealing with the ongoing consequences of the pandemic, one of which is the significant reduction in cargo volumes and cruise ship calls. This in turn impacts our revenue. The number of cars being imported through the port is a good example, with the fourth quarter down 53% on the third. We are working to manage the impact of this on our operations.

TOTAL CARS



68,088

CONTAINERS HANDLED

During the lockdown period Ports of Auckland safely and securely handled **68,088** containers – an average of **9,726** per week!

CHIEF EXECUTIVE'S REVIEW

> The public will be able to come onto the port safely and enjoy the new green public space while observing port operations.

We were due to start our first trial of automated operations in March, having completed a number of smaller rehearsal automated operations earlier in the year. The COVID-19 lockdown prevented this as all staff not required for day-to-day operations were sent home – including the automation team. While the team was able to progress some work while off site, other work had to wait until they returned to the port.

The silver lining of stopping automation work on the ground was the ability to revert to manual operations in the automation test area. This helped our efforts to keep freight flowing despite the pressure on the supply chain caused by COVID-19. Our new cranes were put to good use and for the first time we were able to have a six-crane operation at the terminal.

The automation project restarted in May and is going well, albeit with the occasional hiccup as we iron out the bugs which are inevitable with such ground-breaking work. Border closures have added another difficulty as specialist staff from overseas have been unable to come on site as previously planned. We have worked around this as best we can by using video-conferencing, but it has made the work more difficult.

At the time of writing we have been servicing two-three ships a week at the northern berth using the automation technology while maintaining a manual operation at the southern end. We will progressively increase the number of ships being handled in the northern automated part of the terminal while we finish the remaining infrastructure work in the south. We now expect to be able to have automation operating across the entire terminal toward the end of 2020.

Increasing car handling capacity

Work on the new car handling building was ahead of schedule until work was stopped for the COVID-19 lockdown. We now expect the building to be completed and open for service at the start of October, on time and on budget despite COVID-19.

It is a unique and interesting structure. It provides more capacity for handling Auckland's vehicle imports, so it performs a useful function for the people of this city. By using a building to increase capacity we have avoided the need for reclamation, so it is a harbour-saving building. We have clad the exterior with the world's largest soil-based vertical garden and a 110-metre-long light sculpture, so the building looks good and enlivens the city centre. And finally, we will create a public park on the roof. The public will be able to come onto the port safely and enjoy the new green public space while observing port operations.

We look forward delivering this new public space for Aucklanders to enjoy.

On completion the car handling building will deliver new capacity and it will enable

the Auckland fishing fleet to be relocated to Marsden Wharf in time for the America's Cup – Marsden is currently used for car imports; the current fishing fleet wharf is needed for the America's Cup. Longer term, the additional capacity of the building will enable us to handle an expected upturn in vehicle imports as New Zealand switches to an electric vehicle fleet.

Channel deepening

Auckland's population is growing quickly, with a million more people expected to live here by 2050. More people will mean more demand for the products we all buy from overseas, which will mean more containerised imports and – because of economies of scale – bigger ships.

With the increasing growth in container ship size, we need to increase the depth of Auckland's shipping channel. Most other New Zealand ports have already made this investment and it is important for New Zealand and Auckland's international trade security that we do the same.

The largest container ships we handle now carry up to 5,000 TEU. Shipping lines want to bring 6-7,000 TEU ships here in the next two to three years and in future we will need to host 'New Panamax' ships, which can carry around 12,000 TEU.

The shallowest parts of the channel are 12.5m deep at low tide, whereas 6-7,000 TEU ships have a draft of 14m and New Panamax ships have a draft of 15.2m.

To keep the need for dredging to a minimum, we propose to use tidal windows. Tidal windows are in common use in other New Zealand ports, and simply mean that deeper draft ships enter or leave port when the tide is high enough. To create a suitable tidal window for New Panamax ships to access port safely we will need a channel which is 14m deep on the straights and 14.2m deep on the bends.

We will use a mechanical dredge – a digger on a barge – to deepen the channel. The digger will have a long arm to reach down to the seabed to scoop material from the channel bed. As the channel bed is mostly soft material like marine muds and mudstones, no blasting is required.

When we applied for consent with Auckland Council we asked for the application to be publicly notified. Notification is not required under the Auckland Unitary Plan for dredging inside the channel precinct, but we feel it is important for all our major projects to be carried out in an open and transparent manner. We also undertook a great deal of public engagement prior to lodging consent. On 11 August 2020 Auckland Council granted consent for the channel to be deepened. An appeal has been lodged, but depending on the outcome of the appeals process, we hope to be able to start work in 2021.

6-7,000

TEU CONTAINERS

carried by ships coming here in the next 2-3 years

110-metre-long light sculpture enlivening our new car handling facility

CHIEF EXECUTIVE'S REVIEW

> “Over the long term, we remain the fastest, most efficient, most cost-effective and lowest-carbon route for freight into Auckland.

Freight volumes

All freight volumes have suffered as a result of COVID-19. As New Zealand's largest import port we perhaps feel the effect more than others, as import businesses were affected first by the shutdown in China and then by the lockdown here in New Zealand. Car volumes in particular have fallen significantly. If the ongoing economic impact of COVID-19 results in a contraction of the New Zealand economy, we would expect a similar contraction in import freight volumes.

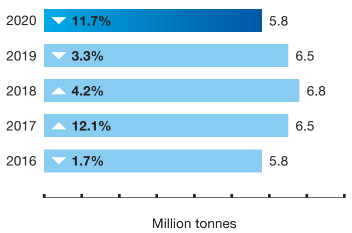
Container volumes were down 6.3% on the year prior at 880,781 TEU, compared to 939,680 TEU in the same period last year (1 TEU is equivalent to one 20-foot container). While some of the reduction was the result of the loss of two service calls, a service change and a high number of vessels arriving out of schedule in the first six months of the year, the impact of COVID-19 was the main factor. To give some idea of the scale of the fall, this is our lowest throughput since 2013.

Multi-cargo volumes were down 11.7% compared to the year prior. Total breakbulk volume (including cars) was 5.779 million tonnes compared to 6.548 million tonnes last year. The drop in car volumes was the major component of this fall, down 15.2% to 216,356 units, compared to 255,252 units in the year prior. Volumes have not been that low since 2014.

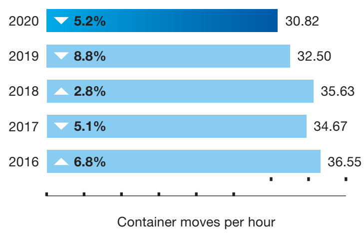
We handled 1,269 ship calls for the year, down 112 on the year before. A large contributor to this drop was the complete halt in cruise ship visits due to the New Zealand border closure, but a number of container lines also cancelled port calls as a result of COVID-19. We were expecting a record year with 137 cruise ship visits, but in the end we received only 112 calls – although this is still the second highest number of visits on record.

It is hard to know exactly how the next financial year will play out, with so many questions around the pandemic yet to be answered. What does seem clear is that the issue will be with us well into 2021 and the economic impact will be significant. For those reasons we are forecasting cargo volumes in all areas of the business to remain flat over the next 12 months. At the time of writing it looks unlikely that there will be any cruise ship visits in the 2020/21 financial year.

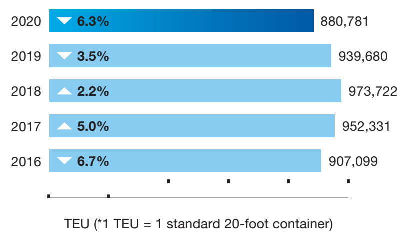
Bulk and breakbulk
(including cars)



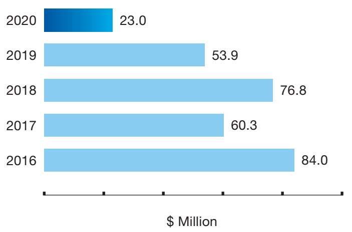
Crane rate
(Australasian Waterline standard)



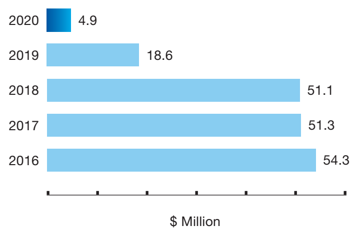
Container throughput (TEU*)



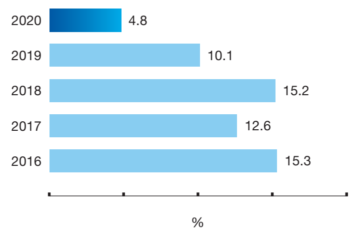
Net profit after tax



Ordinary dividends declared for the year



Return on equity
(excluding revaluations)



Financial performance

As would be expected, with such significant reductions in cargo volumes and cruise ship calls, there has been a reduction in revenue. We were already facing higher costs as a result of our investment programme, and costs increased further as a result of action taken to protect staff and the country from COVID-19. Again, as New Zealand's major gateway for imports we have a responsibility to protect staff and our operations. We bought a large amount of personal protective equipment and reorganised our operations to safeguard business continuity. As a result our profit is down on expectations.

Revenue was $231.4 million for the period compared to $248.1 million for the previous corresponding period (pcp). Net profit after tax was $23.0 million, compared to $53.9 million in the pcp. We expect to pay a full-year dividend to our owner, Auckland Council, of $4.9 million.

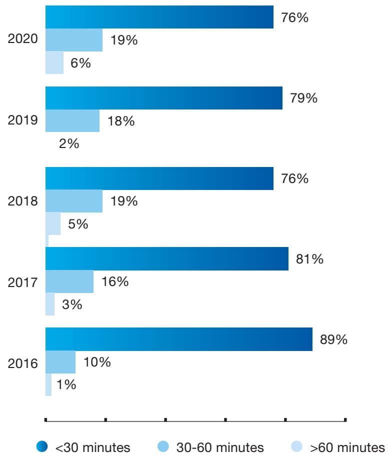
Our view on the outlook for 2020/21 remains the same. On the one hand, we are gaining additional capacity because of the completion of the automation project and thus the ability to handle greater container volumes. On the other hand, the economic environment makes additional container volume uncertain, a reduction in car volumes likely and the return of cruise ships a distant prospect. We are approaching this by reducing costs in our operation, deferring capital expenditure where possible and focusing even more on providing the best service possible to our customers and to the people of Auckland.

Over the long term, we remain the fastest, most efficient, most cost-effective and lowest-carbon route for freight into Auckland. For this reason we believe the future of the Ports of Auckland is bright and justifies our investment in improving the productivity and capacity of our Waitematā port site.

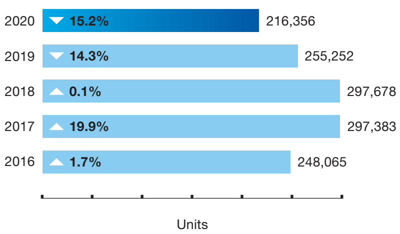
Our people

As I have noted above, protecting our people and helping them through the pandemic was our number one priority. Now that we have come through lockdown successfully, we have to deal with the ongoing consequences of the pandemic, both maintaining our safety practices as we interface with overseas ship crew and adjusting to the significant reduction in our throughput and revenue.

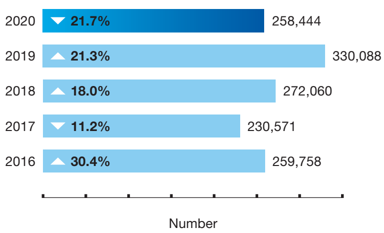
Truck turnaround
(% of trucks turned around in time)



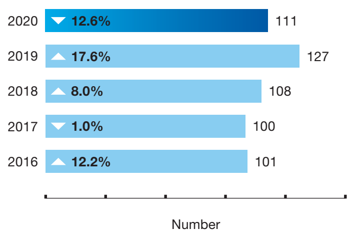
Cars



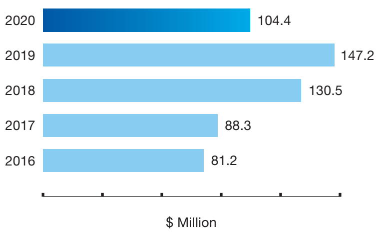
Cruise ship passengers
(Billed passengers)



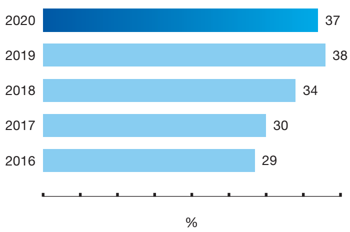
Cruise ship calls



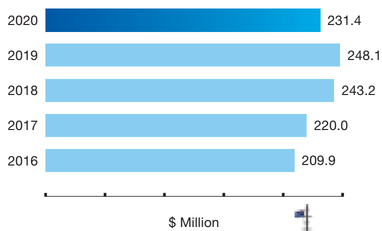
Capital expenditure



Interest-bearing debt to debt + equity



Revenue – statutory



CASE STUDY

SUPPORTING AUCKLAND'S GROWTH FOR THE NEXT 30 YEARS

By the end of the year, we will be New Zealand's first automated port. This is a significant investment in new infrastructure, machinery and technology, which will allow the port to be able to handle Auckland's growth for at least the next 30 years, on our current small footprint.

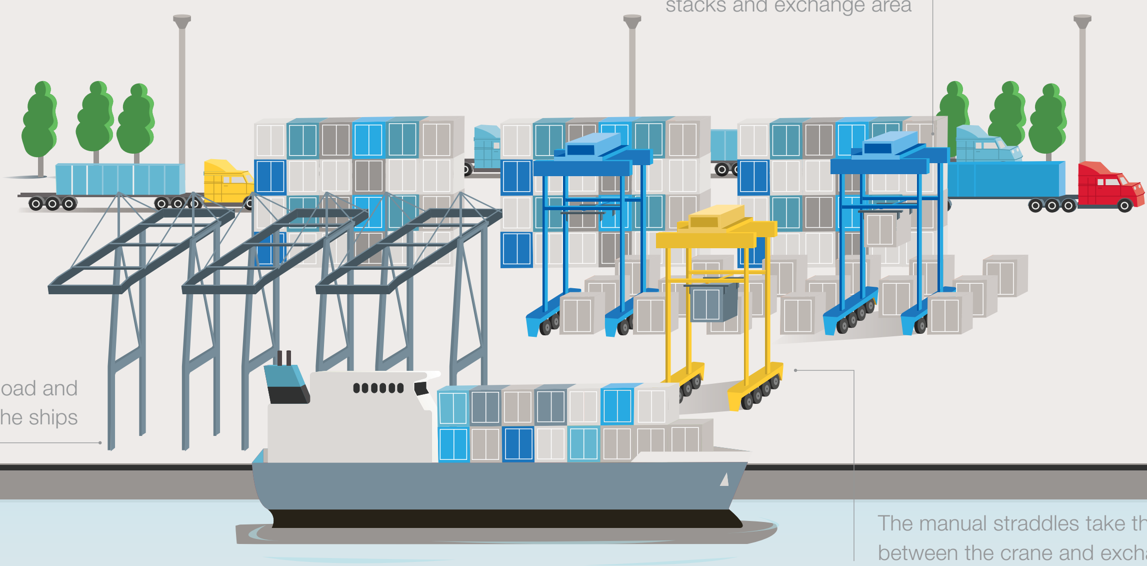
A world first as we automate

Ports of Auckland is the first operating port in the world to automate. Upgrading a live terminal is difficult, causing disruption and some loss of capacity during the process. However, it offers substantial capacity and efficiency benefits.

The additional capacity comes from being able to safely stack containers higher, providing more space for operations. It also means a safer operating environment for our team, removing the risk of having people working near the straddles.

Investing in the future of Auckland

This has been a significant four-year programme. The final stages of the project were impacted by COVID-19, with the work slowing during the lockdown. During June and July, we began servicing a ship a week at the northern berth using automation technology. We are progressively increasing these numbers and we expect to have full automation operating across the entire terminal by the end of the year.



NO.1

New Zealand's first automated container terminal and the world's first to automate while still operating

CHIEF EXECUTIVE'S REVIEW

> Part of our long-term vision is to be woven into the fabric of Auckland.

Our people (continued)

We know we need to make savings but we also know that things will pick up again and we want to be able to handle that when it comes.

We are also acutely aware that thousands of New Zealanders have lost their jobs as a result of COVID-19, and this has touched many in the port whānau. We do not want to make things worse.

For this reason, as we look to save money, we have first looked at areas that do not involve job losses. Delaying major project expenditure, freezing recruitment, cutting travel and training and more have all helped minimise the impact on our people. However, despite our best efforts we have been forced to reduce staff numbers to balance the books. This is hard on the people who are leaving and on the friends they leave behind. We have done our best to be as kind and supportive as possible through this difficult process.

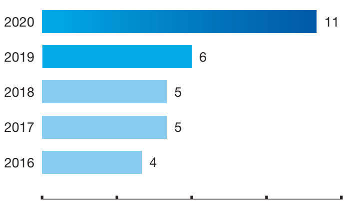
In a significant development for safety, we are the first port in the country to use 'lash platforms' as part of the container loading and unloading process on our cranes. One of the roles at the terminal involves fitting and removing twist locks to the corners of containers as they are put on or taken off a ship. This work was previously done at ground level under the cranes while straddle carriers operated in the same area. While staff are well trained, working around heavy machinery carries an inherent risk.

Lash platforms are situated on the crane above straddle height, so staff are no longer working around heavy machinery, thus eliminating this risk. The platforms have cabins at each end providing shelter in bad weather and improving working conditions. Overall, the platforms are a great benefit to staff and are a welcome change.

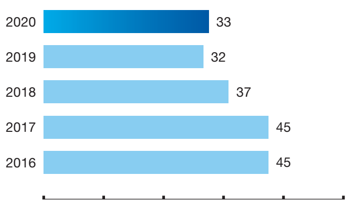
Community

Part of our long-term vision is to be woven into the fabric of Auckland. Our annual SeePort festival is a key part of our engagement with Auckland as it creates an opportunity for Aucklanders to come onto their port, enjoy themselves and learn about how it works. SeePort is held over Auckland Anniversary Weekend and attracted large crowds again this year. When it started in 2013 it was very much focused on port activities, but over the

Lost-time injuries (LTIs)

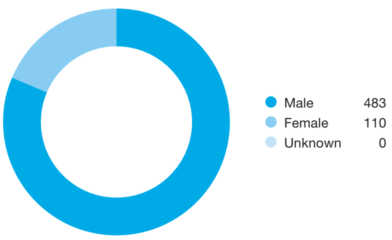


Medical recordable injuries

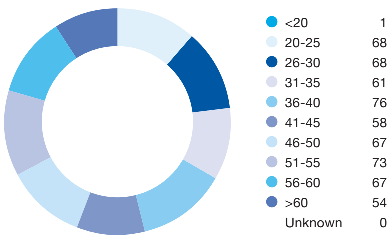


Note: Health and safety metrics depict the numbers at the Waitematā seaport only.

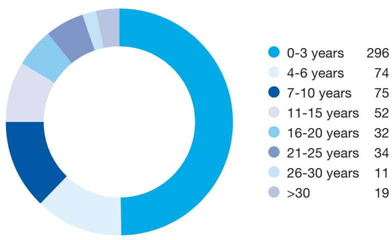
Staff gender balance†



Staff age profile†



Staff years of service†



† Permanent Ports of Auckland employees only. This includes full-time, part-time and fixed term staff. It does not include contractors and casuals. Last year we reported all employees for Ports of Auckland and their subsidiaries. These figures have been updated retrospectively and now show Ports of Auckland permanent employees only. Note: Health and safety metrics depict the numbers at the Waitematā seaport only.

CASE STUDY

A COMMITMENT TO COMMUNITY ENGAGEMENT

We have been working closely with the local community as we look to deepen our channel to allow for safe navigation and to accommodate larger ships.

The shallowest parts of the channel are

12.5m

DEEP AT LOW TIDE

NEW SHIPS REQUIRE

15.2m

Going beyond engagement requirements

While public notification for this consent is not required, we wanted to work with the local community to ensure they understood the requirement and had an opportunity to have their say. We engaged with iwi and community and yachting groups around Auckland and Great Barrier Island. While this added to the timing and cost of the process, it demonstrates our commitment to being open with our local community. On 11 August 2020 we were granted consent for the channel to be deepened.

Dredging to accommodate larger ships

The dredging is a straightforward process, where we use a mechanical dredge – a digger on a barge – to remove soft sediments. This consists of mud and mudstone laid down during the last ice age. There is no blasting required. The shallowest parts of the channel today are 12.5m deep at low tide, with new ships requiring 15.2m. These are challenges faced by all ports around the world, with this activity being undertaken globally all the time.

Safe disposal of dredged material

A key part of this process is deciding where the dredged material will be disposed of. While in the past dredged material has been used for reclamation, this is no longer part of the port's strategy. For this reason, we are proposing to dispose of this material at sea, as is standard practice around the world. The disposal is also subject to consent, but via a different process with the Environmental Protection Agency. The judicial review for this consent is being held in August 2020.

CHIEF EXECUTIVE'S REVIEW

"

We intend to be a zero-emissions port by 2040 and are currently laying the foundations for meeting this goal.

2°C

our emissions reduction roadmap takes us well below the Climate Leaders Coalition target

years it has grown into a showcase for Auckland's maritime and logistics sector.

For the first time this year we were able to offer public bus tours of our container terminal so visitors could get a close-up view of giant container ships being loaded. Feedback from SeePort has been overwhelmingly positive, with many Aucklanders really appreciating the opportunity to see their port at work.

We are grateful to our supporting partner the Royal New Zealand Navy, and other partners including KiwiRail (who brought a locomotive on site), Sanford (showcasing sustainable seafood), Police, Fire Service, Customs, the Ministry for Primary Industries and more. We would like to thank these partners for making this event a huge success, and our staff, many of whom volunteer over the weekend to share their experience of the port with the public.

Zero emissions by 2040

We intend to be a zero-emissions port by 2040 and are currently laying the foundations for meeting this goal.

In July 2018 we joined the Climate Leaders Coalition (CLC), and in doing so pledged to publicly set an emissions reduction target consistent with keeping global warming within 2°C of pre-industrial levels.

We then chose to commit to the Science Based Targets initiative (SBTi) because of the scheme's ability to help with verifying that our emissions reduction roadmap is consistent with an approach grounded in science. SBTi is the only globally recognised scheme which does so.

Since then, the Inter-Governmental Panel on Climate Change released a report that raised significant concerns about the likely effects if the temperature rise exceeds 1.5°C. As a result, the SBTi changed their programme, which now requires emissions reduction roadmaps to be aligned with a 'well below 2°C' or a '1.5°C' target.

Over the last six months we have developed an emissions reduction roadmap in line with the 'well below 2°C' target and this was approved by the Board in December. In the short to medium term the roadmap involves using fuel switching (to bio diesel or renewable diesel) and the purchase of renewable energy certificates for our electricity to achieve emissions reductions. This will be supplemented by the adoption of zero-emissions technology with a significant increase in this focus during the 2030s. We have submitted our roadmap to the SBTi for verification.

We have started a multi-year programme to develop a climate response framework. We completed a Climate Change Impacts

CASE STUDY

THE WORLD'S FIRST FULL-SIZED ELECTRIC TUG

Work has begun to create the world's first electric tug. This is a great project for the port, showcasing our focus on innovation and being sustainable.

Before we asked them, tug builders weren't even thinking about electric tugs – but our persistence and the innovation of Dutch company Damen have made it a reality. Production is well underway in Vietnam and it will take around a year to build. After testing, we expect the new tug to be delivered in late 2021.

THE WORLD'S FIRST ELECTRIC TUG SAVING

465

tonnes of CO_2 emissions every year

Innovation for the environment

The electric tug is a key milestone as we work towards being emissions free by 2040. The tug will save approximately 465 tCO_2e in diesel emissions annually. The life of the tug is around 25 years; by going electric now, we are saving 25 years of diesel pollution.

Named by the people

As Auckland's port, we work hard to engage with our local community, and so we asked Aucklanders to come up with a name for our new tug. The response was overwhelming, with many fantastic suggestions and culminating in a final vote by more than 8,000 people. And the result, by an overwhelming majority, was Sparky.

CHIEF EXECUTIVE'S REVIEW

"Ports of Auckland commissioning this tug has created a leadership impact by showing others what is possible.

and Implications study last year, which recommended a phased approach to developing our climate strategy. We have completed an organisational climate response readiness assessment and as part of this have a three-year action plan for developing our climate response maturity in line with the Task Force on Climate-related Financial Disclosures (TCFD).

We have also done some work this year to identify how the Ports of Auckland's sustainability strategy and operational roadmap align with the United Nations' Sustainable Development Goals (SDGs). The SDGs were designed to catalyse a shift in how business sees its role in contributing to sustainable development, providing a framework for business to understand the transformation that is needed to meet a better and more sustainable future by 2030.

The review looked at how other ports globally have reported on the SDGs, taking particular note of the analysis conducted by the World Ports Sustainability Program. We then looked at which SDGs align with our sustainability strategy and roadmap and from there developed a short-list of the SDGs which are in our inner sphere of influence, and thus which should be focused on as part of our strategy.

The five SDGs (below) were identified as being in our inner sphere of influence.

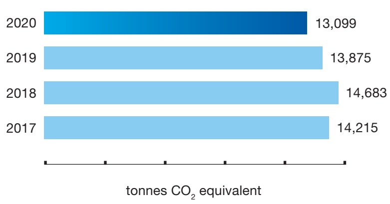
Our next step is to determine our focus for delivering to the SDGs overall and how we might need to adapt our strategy to better address those in our inner sphere of influence.

We have upgraded 90% of our lighting (including exterior flood lights, workshops/sheds, and the POAL office) to LED. This project has contributed to around 10% reduction in electricity usage for the period, although it should be noted that other factors, like fewer refrigerated containers, will also have had an impact.

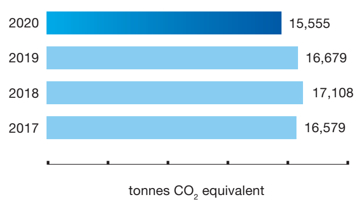
Construction of our new electric ship-handling tug – the world's first – has started in Vietnam and delivery is expected in late 2021. It will save approximately 465 tCO_2e annually, by replacing one of our diesel tugs. Ports of Auckland commissioning this tug has created a leadership impact by showing others what is possible. It is driving the development of zero-emissions technology for tugs and will lead in the development of this industry.

Through our electricity retailer, Genesis, we have purchased Renewable Electricity Certificates (RECs) issued by the New Zealand Energy Certificate System. The

Total gross controlled emissions (scope 1 and 2)

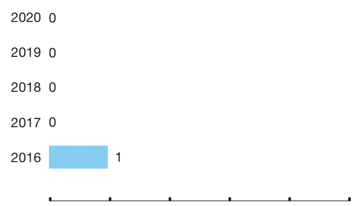


Total gross emissions (scope 1, 2 and 3)



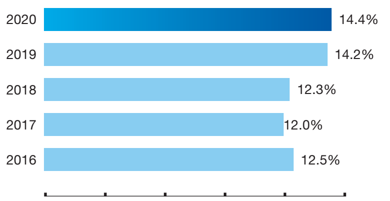
Note: Ports of Auckland has used the market-based method for calculating our Scope 2 emissions. From 1 April 2020 we have calculated our scope 2 emissions using the market based approach.

Environmental spills



Note: Environmental measurements are currently only taken at the Waitematā seaport.
The spills data refers to spills for which Ports of Auckland has assumed responsibility.

Rail moves as % of total land-side moves to/from the port



SDGs identified as being in our inner sphere of influence

CASE STUDY

WELCOMING AUCKLANDERS TO THE PORT

Each year we welcome over 60,000 Aucklanders behind the red fence at our SeePort open weekend.

The festival weekend has been running for seven years and we are delighted to see so many Aucklanders taking an interest in the innovation and developments going on at the port. The weekend is a fun way for families to safely interact with the port, to understand what we do, how our technology works and what might be in store for ports of the future.

Robots on the waterfront

A key attraction this year was seeing our robots – or automated straddles – in action. These are being introduced so that we can do more in less space, and accommodate Auckland's current and future growth needs.

Ports of Auckland is dedicated to supporting community activities that bring life to the waterfront. We will continue to welcome Aucklanders to our annual SeePort festival, even if it is a little more subdued in 2021 due to our changing market environment.

7 years

of our annual SeePort festival

WELCOMING OVER

60,000

Aucklanders behind the red fence each year

> The COVID-19 pandemic has hit our city economically and socially, but we can and will rebuild.

RECs for this financial year equate to 327 tCO_2e savings and are an important part of our emissions reduction programme and support NZ Inc's ambition to use 100% renewable electricity by 2035.

We are making progress – albeit more slowly than hoped – on our plan to build and operate a hydrogen production and refuelling plant on port. We have awarded the pre-construction services contract and engineering and detailed design work is well underway. Resource consent was granted on 9 September 2020.

Through the development of our hydrogen demonstration project, we have found the lack of effective regulation and government financial support to be challenging. It has taken longer and cost more to work through the necessary regulatory approvals. The government has several potential funding mechanisms in place, but none have been willing to support the development of hydrogen infrastructure in Auckland, instead choosing a provincial focus, even though hydrogen is widely recognised as a key part of New Zealand's zero-emissions future.

The project has also been impacted by COVID-19, which has increased the lead times for key components. We are now unlikely to have the plant operating until 2021.

On a positive note, we have taken delivery of four barrels of 100% renewable diesel, a second-generation biodiesel which will be used in trials at the port and testing by Auckland University. As noted above, using renewable diesel will help us reduce emissions in the short to medium term.

Our greatest advantage as a port is that we are located in the market we serve. Other ports are hundreds of kilometres away, adding time, cost and carbon emissions to imports and exports.

We have developed a carbon calculator to help our customers and cargo owners work out the carbon footprint of the land transport leg of their imports and exports. Using this we have been able to clearly demonstrate the advantage of importing via a local port such as Ports of Auckland.

The work we have done to date with our supply chain partners, using our carbon calculator to demonstrate emissions savings, has resulted in significant changes to freight routes and greater use of rail. This is realising emissions savings for those partners and for New Zealand.

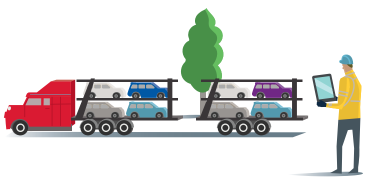
The potential savings are huge. Currently around 300,000 TEU of Auckland freight is handled via Tauranga, generating significantly higher emissions. Auckland could save over 30,000 tonnes of CO_2 a year just by importing locally through its own port. We believe this is a significant issue and one that we will be highlighting to our customers, supply chain partners and other stakeholders.

Conclusion

The COVID-19 pandemic has hit our city economically and socially, but we can and will rebuild. We look forward to continuing to make a significant economic, environmental and social contribution to Auckland to support that rebuild. The investments we have made in our people and our port will help us power the people who grow our city.

We would like to thank all our staff, management and Directors for the work they have done to keep Auckland's port working during the COVID-19 pandemic, and in preparing our port for a new era.

Tony Gibson Chief Executive



30,000
TONNES
potential CO_2 savings by handling Auckland freight through Ports of Auckland instead of Tauranga

OUR STRATEGY

OUR MARKET ENVIRONMENT

We are Auckland's port. Owned by the city, providing an essential service, significant economic benefits and thousands of jobs directly and indirectly. We deliver the things that make Auckland a great place to live, study, work and play.

We are in the central city and on the Waitematā harbour and must take care of our place. We are growing capacity through technology, not reclamation. We are on track to reduce our carbon emissions to zero by 2040. We will meet the needs of Auckland responsibly and successfully.

We contribute to New Zealand's economic success. We have built regional transport hubs to create efficiencies for regional customers to export their goods to global markets.

OUR OUTCOMES

Delivering goods to Aucklanders to support our growth and way of life

- Supportive community and iwi
- Keeping ahead of trade needs
- Engaged shareholder
- Commercially successful

Supporting New Zealand and serving regional New Zealand's freight needs in the most efficient and sustainable way

- Delighted customers
- Volume growth through sustainable supply chain solutions
- Future-fit New Zealand port structure

Being innovative and sustainable world-class port company with safe and empowered people

- Innovation leader
- Safe and empowered people
- Improved environment

OUR STRATEGIC OBJECTIVES

- Constructive relationships with all stakeholders
- Increased public engagement, with open and transparent communications
- Appropriate capacity to meet growing volumes and larger ships
- Sustainable shareholder returns
- Maintain enough financial capacity to respond to market change risks

- Productive and efficient operations
- Effective engagement with customers
- Integrated supply chain network – hubs and transport with a focus on rail
- Gain high-volume cargo owners with supply chain solutions
- Supply chain successfully contributes to volume growth

- An engaged and skilled workforce with safety and wellbeing embedded into our culture
- Diversity and inclusion leveraged for competitive advantage
- Protection of our natural environment, responsible use of natural resources
- Leader in Auckland's transition to a low-carbon economy
- Rapidly adapt to change and continue operations with limited impact
- New, sustainable revenue streams through innovation and partnerships

OUR PERFORMANCE TARGETS

- 55%+ overall favourability from Ports of Auckland community attitude survey
- 2020 straddle automation successfully completed
- 30-year master plan infrastructure developments completed on target

- Maintain productivity while automating the container terminal
- Achieve minimum of 80% customer satisfaction
- Waikato Freight Hub operational
- Minimum of 15% of container volume moved by rail
- Increase supply chain volume

- Zero lost-time injuries
- Future of Work programme completed by all staff
- Greater ethnic diversity in leadership roles, to a minimum of 30% non-European
- Minimum of five innovation projects initiated
- Zero waste by 2040
- Carbon neutral by 2025
- Zero emissions by 2040

CASE STUDY

WELCOMING AUCKLANDERS TO THE WATERFRONT

Our new car handling building is focused on saving space, and the harbour, while also providing public art and an exciting new community park.

We listened to the people of Auckland and our customers to come up with a new solution for car handling on the port. Aucklanders love their cars, with large volumes coming into the city each month. While vehicle importers need room to manage the transportation of these vehicles off the port, Aucklanders want a better-looking waterfront with more public space. Our new car handling building addresses these two potentially conflicting needs.

Efficient car handling

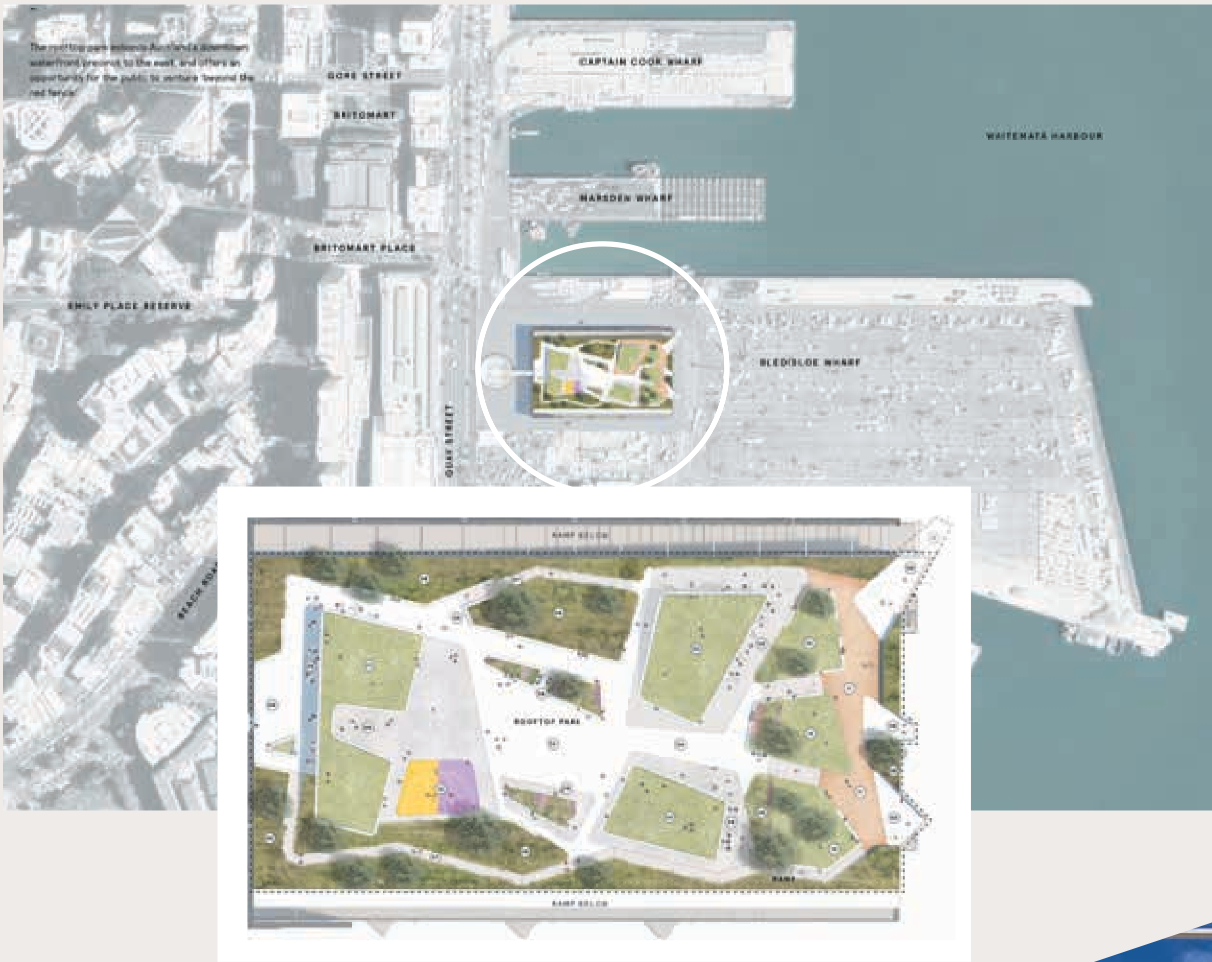
On the inside, the Tardis-like structure is specially designed with ramps to every floor to quickly swallow up cars as they come off ships. They are then held out of sight for a day or two until they can be taken away for storage elsewhere in Auckland. This innovative new building will be fully operational in October 2020.

The hanging gardens of Auckland

On the outside, the building is a work of art, featuring a hanging garden and over 8,000 LED lights, creating the opportunity for community-led art. The garden is the world's largest soil-based vertical garden, planted with 3,800 plants of 30 different species, 75% of which are New Zealand natives. The unique garden system was invented in New Zealand and was manufactured as part of a Department of Corrections prisoner rehabilitation programme, providing opportunities for prisoners to earn industry-related skills and qualifications.

Community space for Aucklanders

But maybe the most exciting part of the building is still to come. We are designing a rooftop waterfront park, where Aucklanders can enjoy waterfront green space. This will be another world first, integrating the working port with the city, and giving the public a great platform for viewing the Waitematā. We have started engaging with the community on the design and look forward to delivering a space our community can enjoy, complete with green space, dining and exercise areas.



Draft design shown, final design may change.

Welcoming Aucklanders to **art**, **gardens** and **parks** on the waterfront

The world's largest soil-based vertical garden, planted with

3,800

PLANTS


03

UNDERSTANDING OUR RISKS AND OPPORTUNITIES

Understanding the views of our stakeholders

We are committed to continued engagement with our stakeholders. We have worked hard to ensure that regular stakeholder engagement processes and materiality determination are well integrated with our management processes and incorporated into our business plan.
We maintain close contact with our stakeholders and have updated the materiality matrix based on this. We plan to carry out a full materiality assessment process every three years. Our materiality approach is in line with the principles of the International Integrated Reporting Council's Integrated Reporting Framework and the Global Reporting Initiative standards.

In the past year we have continued our focus on engaging more openly and transparently with our stakeholders, including our employees, our local community and iwi and our customers and business partners.

Risk management

Our materiality assessment works alongside our risk management framework, ensuring our managers better understand stakeholder expectations and how the business affects them. Our risk management framework encourages us to pursue business opportunities and grow value for our shareholder – the people of Auckland – as well as develop and protect our people, our assets, the environment and our reputation. Risk management is fundamental to how we manage our operations, and we utilise good-practice risk management processes to support better-integrated decision-making.
We have a risk management policy and framework to ensure appropriate oversight of all business activities by executive management and the Board. The risk framework requires managers to continually identify, assess, mitigate and monitor risks, and record them on our risk registers. Ports of Auckland is exposed to a number of financial risks, namely credit risk, liquidity risk and market risk. For more detailed information on how we manage these, see page 76.

Material topics

There is a wide range of social, environmental and economic risks that affect our business, either directly or through our supply chains and customers. Understanding and managing the risks that have the greatest potential impacts on our business is crucial to developing a responsive and agile strategy. We believe that something is 'material' if it has the potential to substantively affect our ability to create and sustain value for Ports of Auckland and its stakeholders in the short, medium and long terms. Risks constantly evolve, and we continually update our response.

Our materiality matrix

The heat map overleaf provides a snapshot of our most material topics. Our reporting is focused on the 15 material topics that have the greatest potential impacts on our business. They are summarised in the table overleaf.

> “We are committed to continued engagement with our stakeholders.

OUR MATERIALITY MATRIX
HEAT MAP

OUR MATERIALITY MATRIX

MATERIAL TOPICS

Changing supply chain structures and customer relationships	Managing the additional pressures on rates and capacity due to ongoing consolidation of global shipping lines and cost pressures, and developing new relationships with cargo owners
Economic viability of the port company	Ensuring we continue to deliver for our shareholder
Safety and wellbeing	Prioritising processes and programmes that support the safety and wellbeing of our people, and everyone we interact with
Governance and ownership structure	Ensuring we have the governance and ownership structure to support the delivery of our strategy
New Zealand port industry structural change	Building collaborative and strong strategic relationships and alliances with complementary ports to drive mutually beneficial outcomes
Upper North Island Supply Chain Study	Engaging with government and sector partners to drive efficient and sustainable outcomes
Productivity, efficiency and capacity	Delivering for our customers and continuing to support Auckland's growth by being more efficient across our Waitematā port and freight hubs
Employee engagement	Ensuring our people have a common sense of purpose, and supporting them with training and opportunities as we navigate the future of work
Innovation and commercialisation	Embedding a culture of innovation to utilise new approaches and technology to overcome challenges and seize opportunities
Information and technology	Managing the risks and opportunities of increased digitalisation and automation, including managing cyber security risks
Protection of the natural environment	Ensuring our operations are focused on protecting the natural environment, while continuing to meet the needs of a growing Auckland. Supporting New Zealand's move to a low-emissions future
Community engagement	Actively listening to and engaging with our communities and neighbours and being open and transparent with our plans
Local economic development of Auckland	Supporting Auckland by delivering goods to support the city's growth and way of life and providing efficient access to international markets for exporters
Modal shift in transport (includes traffic congestion)	Managing our intermodal supply chain across sea, road and rail to provide the most efficient and sustainable traffic flows, including encouraging the use of rail over trucks and reducing the impacts of congestion on Aucklanders
Future location of the port	Working with our shareholder and interested parties to consider the best future location for the port, while continuing to meet the needs of a growing Auckland

MEET OUR EXECUTIVE TEAM

TONY GIBSON

Chief Executive Officer

Tony joined Ports of Auckland in early 2011. He has more than 30 years' experience in shipping and logistics and has worked in various senior roles in Africa, Asia and Europe, including European Director of Customer Operations, Rotterdam, before being appointed Managing Director P&O Nedlloyd, New Zealand and Pacific Islands in 2002. Following a takeover by Maersk, Tony served as Managing Director of Maersk New Zealand for three years. He is Chairman of North Tugz Ltd, Nexus Logistics and Conlinxx Ltd and a Director of AMG Consulting Ltd, Seafuels Ltd, Waikato Freight Hub and EROAD Financial Services Ltd. He is also a Director and Shareholder of EROAD Ltd.

WAYNE THOMPSON

Deputy Chief Executive Officer
Chief Financial Officer

Wayne joined Ports of Auckland in 2004 as CFO, having been CFO at Owens Group, a publicly listed company. Prior to that Wayne spent 13 years with the Comalco Group, based in New Zealand and Australia. Wayne brings strong financial and strategic skills to the company. In 2016 Wayne was appointed Deputy Chief Executive Officer. He is responsible for Finance, Company Secretariat Governance, Cyber Security, Health & Safety and People & Capability.

ALLAN D'SOUZA

General Manager Marine, Engineering and General Wharf Operations

Allan joined Ports of Auckland in 2000. He has a wealth of knowledge built from more than three and a half decades working in the marine industry. Originally from Mumbai, India, Allan got his first command at the age of 28 years and for the next six years was Master on various types of vessels for a global shipping company – The Great Eastern Shipping Company. In 1995 he transferred ashore and rose to the position of Deputy General Manager, responsible for running the commercial shipping operations of 25 tankers. In September 2000 Allan migrated to New Zealand. He worked for various companies in the shipping industry before joining Ports of Auckland.

CRAIG SAIN

General Manager Commercial Relationships

Craig joined Ports of Auckland in August 2007. He has had more than 25 years' experience in the shipping industry, including over 10 years with Maersk New Zealand in a number of senior management positions, including Senior General Manager Oceania Trade Management, where he was responsible for commercial policy and the network for the Oceania region. Craig began his shipping career with the Shipping Corporation of New Zealand and has also held various roles overseas.

ALISTAIR KIRK

General Manager Infrastructure and Property

Alistair joined Ports of Auckland in 2006. A civil engineer by trade, he is responsible for providing and maintaining the land and wharf infrastructure, berth and channel access, port buildings and services infrastructure, off-port property and property leases. He has managed a number of significant projects for Ports of Auckland including the Fergusson Container Terminal expansion. Previously, Alistair worked as a consulting engineer for 10 years within the port and infrastructure sectors and on high-profile building projects in New Zealand and the UK.

REINHOLD GOESCHL

General Manager Supply Chain

Reinhold first joined Ports of Auckland in 2009 in supply chain services. He has extensive experience in logistics and ocean freight working for various country organisations of Schenker & Co – a global logistics company. He has held a range of roles overseas in Europe, North America, Asia and Africa including as Managing Director for Schenker Singapore Pte Ltd, before his appointment as Managing Director at Bax Global New Zealand Ltd in 2001. Following this, he returned as Managing Director at Schenker New Zealand in 2006. Reinhold also served as CEO of Conlinxx for four years. He brings a wealth of experience and industry knowledge to Ports of Auckland.

ANGELENE POWELL

General Manager Container Terminal Operations

Angelene started at Ports of Auckland in 1996. Angelene brings with her over 25 years of experience in the shipping and port industry. She has worked across a diverse range of disciplines and roles including Operations, Organisational Development, Business Analysis and more recently Senior Manager People & Capability. In April 2019 Angelene was appointed General Manager Container Terminal Operations and is responsible for the Container Terminal Operations across Stevedoring, Control & Planning and Gate Operations.

ROSIE MERCER

General Manager Sustainability

Rosie joined Ports of Auckland in 2013. As General Manager Sustainability, Rosie is responsible for the management and delivery of the Ports of Auckland Sustainability Strategy. She is a Member of Engineering New Zealand and of the Independent Advisory Panel for the Provincial Growth Fund. Having previously held the role of Civil Infrastructure Engineer for the port she was responsible for delivering port infrastructure projects and environmental management. Rosie's engineering career started at Beca delivering airfield and highway projects in both New Zealand and overseas. She also served in the New Zealand Defence Force, which included a role delivering reconstruction projects in Afghanistan.

MATT BALL

General Manager Public Relations and Communications

Matt joined Ports of Auckland as Head of Communications in early 2012 after returning to New Zealand from the UK. His appointment as General Manager Public Relations and Communications reflects the importance of communication to the business, and an emphasis on greater community engagement and increased transparency. Matt is responsible for all of our internal and external communications, including employee communications, community engagement, sponsorships, our annual SeePort festival (attended by over 60,000 people), media relations and relationships with political stakeholders. Matt has over 20 years' experience in communications, with roles in the New Zealand Parliament in the late 1990s and with British Rail and London Underground in the UK.

LAUREN SALISBURY

Chief Information Officer

Lauren joined Ports of Auckland in 2019, with over 20 years' experience commercialising innovative technology in the supply chain. Lauren returned to New Zealand in 2018, having spent nearly 19 years across the world's largest technology markets, with a mandate to influence the New Zealand ecosystem towards realising business growth potential, both here and internationally. As CIO (Chief Information Officer), Lauren is responsible for generating high market impact through activating emerging and prevailing digital business opportunities. Lauren is a recognised strategist and innovator, successfully building assets and spin offs as viable propositions, specifically around IoT and the convergence of OT/IT. Lauren was formerly GM Digital for Coda Group in NZ, Group Director of Innovation for Brambles, Principal Partner of Momenta Partners and currently also serves as an Independent Director for Harrison Grierson in NZ.

MEET OUR BOARD

LIZ COUTTS ONZM BMS FCA CFInstD
Chair

Liz was appointed Chair in December 2015 and has been a Director since December 2010. She is also Chair of Oceania Healthcare, Skellerup Holdings and EBOS Group. Liz is a Chartered Fellow of the Institute of Directors in New Zealand and a Chartered Fellow of Chartered Accountants Australia and New Zealand. Liz has extensive governance and executive experience across a range of industries and sectors. She has previously been Chief Executive of Caxton Group, Chair of Meritec Group, Industrial Research and Life Pharmacy, Deputy Chair of Public Trust, and a Commissioner of both the Commerce Commission and the Earthquake Commission. She has been a Director of Ravensdown, the Health Funding Authority, PHARMAC, Air New Zealand, Sport New Zealand, Trust Bank New Zealand, Sanford and Yellow Pages Group. Liz was a member of the Financial Reporting Standards Board of the Institute of Chartered Accountants and the Monetary Policy Committee of the Reserve Bank of New Zealand. She was Chair of the Risk and Assurance Committee of Inland Revenue and is a former President of the Institute of Directors in New Zealand.

RODGER FISHER CFInstD FCIS FIMNZ FCILT
Deputy Chair

Rodger was appointed a Director in December 2013. He was a Director of the Lyttelton Port Company from 2003 to 2013 and Chair from 2007. He is currently Chair of The Property Group and a Director of TPGH Limited. He was Managing Director of Owens Group from 1987 to 1999 and has previously been Chairman of WEL Networks, Ultrafast Fibre, the Civil Aviation Authority, the Aviation Security Service and Auckland Blues. Rodger is a Chartered Fellow of the Institute of Directors in New Zealand, a Fellow of Governance New Zealand, a Fellow of the New Zealand Institute of Management and a Fellow of The Chartered Institute of Logistics and Transport in New Zealand.

ANDREW BONNER BA (Hons) CMInstD
Director

Andrew has been a Director since December 2009. He was previously a Director and founder of Marlborough Wines Limited and remains a Director of associated vineyard companies and of West Auckland Trusts. He is currently Chair of Centauri Communities Limited. He is also a Chartered Member of the Institute of Directors in New Zealand. Andrew was formerly an executive with Foster's Group, where he ran the import arm of the Foster's business in Australia and was Managing Director of Foster's Group New Zealand and also Managing Director and Chairman of Foster's Group Pacific in Fiji.

PATRICK SNEDDEN BCom BA
Director

Pat has been a Director since May 2012. He is Chair of the Auckland District Health Board and Deputy Chair of the Counties Manukau District Health Board. He has been a Treaty of Waitangi negotiator for both iwi and the Crown. He has previously chaired Housing New Zealand Corporation and was also a Director of Watercare Services, Auckland's wastewater and water company. He is currently on the Board of NZ Health Partnerships Limited, engaged with procurement for the health sector. He also serves as a Director of Emerge Aotearoa Limited, a trust that serves people with mental health challenges. In 2011 he helped to establish a new educational trust devoted to accelerating improvement in Māori and Pasifika educational outcomes. The Manaiakalani Education Trust works in Tāmaki and around New Zealand with 90 low-decile schools and supports 25,000 children to use high-end technology to accelerate learning improvement. Pat is the Executive Chair of the Trust.

SARAH HAYDON BSc FCA CMInstDr
Director

Sarah was appointed a Director in August 2016. She is Chair of The Co-operative Bank and Deputy Chair of the Institute of Geological and Nuclear Sciences. She is a Chartered Accountant and a Chartered Member of the Institute of Directors in New Zealand. Sarah has previously been Chair of Cavalier Corporation, a Director of AsureQuality Limited and Chief Financial Officer of OfficeMax New Zealand Limited. Her previous executive roles were with British Petroleum plc.

KARL SMITH FCA CMInstD
Director

Karl was appointed a Director in October 2016. He is a professional director, and was Chief Executive of the Gough Group from 2008 to 2017, and previously held senior management roles with PDL Holdings, Progressive Enterprises, Crane Group and Citibank. Past directorships include Lyttelton Port Company, Geosystems New Zealand, BuildingPoint New Zealand, SITECH Construction NZ and The Crusaders Partnership. He is currently Chair of Hall's Group and FortHill Property and a Director of VetNZ and Hamilton Jet. He is a Chartered Member of the Institute of Directors in New Zealand and a graduate of the Advanced Management Program at Harvard Business School. Karl is also a Chartered Accountant and in February 2018 become a Fellow of Chartered Accountants Australia and New Zealand.

BILL OSBORNE MBA
Director

Bill was appointed a Director in May 2017. Bill is a professional director and chairs Page Macrae Limited and is on the board of Transpower. He is currently the President of New Zealand Rugby, having previously served as a Director of the Chiefs Rugby Club and New Zealand Māori Rugby. He has an extensive business background including past roles as Group Manager International for New Zealand Post, Chief Executive of Quotable Value New Zealand, inaugural Chairman of 2 Degrees Mobile and Chair of CoreLogic New Zealand. He has served on the boards of the Hillary Commission for Sport and the Sport and Recreation Commission (SPARC), as well as being a Trustee and Director of a number of Māori trusts and enterprises. He is a Chartered Member of the Institute of Directors in New Zealand.

JONATHAN MAYSON CNZM MBA
Director

Jon was appointed a Director in October 2014. He is a professional director, and was Chief Executive of the Port of Tauranga from 1997 to 2005. He was honoured for his services to the shipping industry and the export sector in 2006 when he was made a Companion of the New Zealand Order of Merit. Jon was Chair of New Zealand Trade and Enterprise from 2008 to 2012 and is currently Chair of ZIWI and Purpose Capital Impact Fund.

CORPORATE GOVERNANCE

We believe that effective corporate governance is the foundation for a sustainable business. We are committed to ensuring that we apply and adhere to good governance practices by monitoring our performance and reviewing it against best-practice codes. Our Board regularly reviews and assesses our governance policies, procedures and practices to ensure they are appropriate and effective.

This section of our Annual Report provides an overview of our corporate governance for the year, including any key developments, based on the eight Principles in the NZX Corporate Governance Code 2019. For more information about corporate governance refer to the Corporate Governance Statement on our website.

Principle 1
CODE OF ETHICAL BEHAVIOUR

Our Board has adopted a Code of Ethics which documents the standards of ethical behaviour to which its directors and employees must adhere and is available on our website. In addition we have policies for managing conflicts of interest, accepting gifts and hospitality, approving sponsorship and donations, managing fraud risk and for whistle blowing.

During the year our Board received no requests from Directors to use company information received in their capacity as Directors which would not otherwise have been available to them.

Principle 2
BOARD COMPOSITION AND PERFORMANCE

Our Board of Directors has responsibility for our strategic direction and performance, ensuring that shareholder value is protected and enhanced, and stakeholder interests are taken into account.

Our Board currently has eight Directors, all of whom are independent professional directors and none performs any management function. Our Board considers that, individually and collectively, the Directors have an appropriate mix of skills, qualifications and experience to enable them to discharge their duties effectively.

No Directors resigned and no new Directors were appointed during the year. Directors are encouraged to keep up to date on governance matters and trends, and those that impact our business or industry. All Directors have access to Executive members and Executive members frequently present to the Board. Biographies of our Directors are provided on pages 34-35, and on our website.

We believe diversity and inclusivity are essential to driving sustainable commercial success and creating a high-performing, values-driven culture. Our Board and Executive aim to have a diversity of skills, experience, knowledge, length of service, and gender. We recognise the benefits of bringing greater diversity to the boardroom and throughout the organisation. Our Diversity and Inclusion Policy helps us drive these practices throughout the business and is available on our website. For more information on our diversity profile, please see page 18.

In April 2020 Claire Neville, our second 'Future Director', stood down after her engagement was completed.

Principle 3
BOARD COMMITTEES

Our Board is supported by two committees, the Audit Committee and the Remuneration Committee. The Audit Committee supports our Board in fulfilling its responsibilities with respect to financial reporting, external audit and internal audit. The Remuneration Committee supports our Board in fulfilling its responsibilities with respect to remuneration and incentive policies, practices and performance indicators. Our Board and its Committees have charters that set out their authorities, responsibilities and processes and these are available on our website.

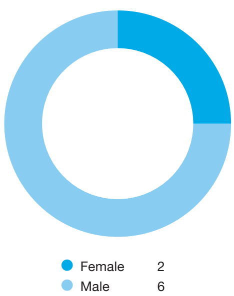
Principle 4
REPORTING AND DISCLOSURE

Under Auckland Council's Disclosure Policy, we are required to formally report to the Council any material information, or information of an exceptional or extraordinary nature. Our Board considers this requirement during a standing Board agenda item.

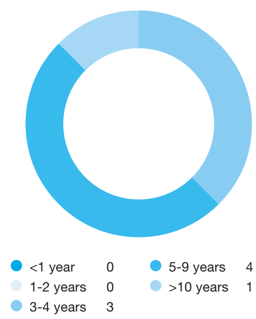
We maintain www.poal.co.nz, a website where stakeholders can access financial and operational information, media announcements, customer communications and key corporate governance information.

We follow the Integrated Reporting Framework to ensure there is balanced, transparent, public disclosure which connects financial, social and environmental performance within our half-yearly and annual reports.

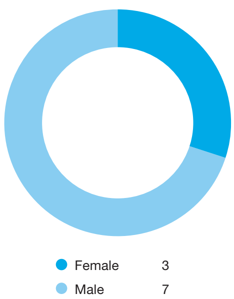
Board gender



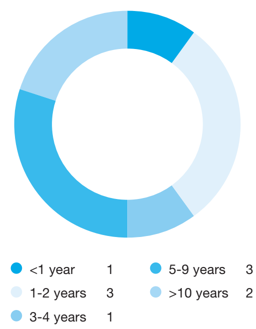
Board length of service



Executive team gender



Executive team length of service



Principle 5
REMUNERATION

Our Board's total remuneration is set by our shareholder, Auckland Council, under the Council's Board Appointment and Remuneration Policy. Changes to remuneration are recommended by our Board, based on advice from a remuneration benchmarking exercise undertaken by an external consultancy. In accordance with our Constitution, the Board will then determine the amount of remuneration payable to each Director.

Total remuneration paid to our Directors for the year was $690,000. Our Directors undertake site visits and meet with management for briefings as well as attending formal Directors' meetings.

Director remuneration and attendance at the formal Directors' meetings for the year ending 30 June 2020 are set out in the table below. During the year the Board undertook nine special meetings, which are included in the numbers below; seven of these were due to the coronavirus emergency. These special meetings, and two regular meetings, were via video-conference.

Members of our Executive team are appointed as Directors to our subsidiaries, associates and joint ventures. This is considered part of their role and they do not receive director fees for these appointments.

Garrie Hoddinott is an Independent Director of both Nexus Logistics Limited and Conlinxx Limited and is not an employee. Mr Hoddinott was paid director fees totalling $57,000 for the year ending 30 June 2020. In addition Mr Hoddinott was paid $9,600 in non-director remuneration.

We have granted indemnities, as permitted by the Companies Act 1993, in favour of each of our Directors and Officers. Directors' and Officers' liability insurance is also maintained.

Principle 6
RISK MANAGEMENT

We have a Risk Management Policy which describes our risk management framework, assigns accountability for managing risk, requires risks to be managed and mitigated, and outlines risk reporting. This approach enables us to pursue business opportunities and grow shareholder value, as well as developing and protecting our people, assets, reputation, and the environment.

Our risk management framework ensures a comprehensive approach across our business, with oversight by management and our Board. Risk assessments are ongoing within each area of our business to identify, evaluate and manage risks. Significant risks are reported to the Executive team, who maintain and regularly review the Key Risk Register. This register is subject to a formal annual review by our Board.

Directors, individually and collectively, regularly visit sites to view our operations and meet with managers and workers to ensure familiarity with all aspects of the business, including how we meet stakeholder expectations and mitigate risk. Highlights this year have included Board visits to our Waikato Freight Hub, the automated straddle testing area, the automated truck grid and the new Fergusson North wharf and quay cranes.

DIRECTOR	ATTENDANCE AT BOARD MEETINGS	ATTENDANCE AT AUDIT COMMITTEE MEETINGS	ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS	TOTAL REMUNERATION PAID FOR THE YEAR	COMMENTS
Liz Coutts	18/18	9/9	4/4	$132,000	Appointed 20 December 2010 Board Chair Remuneration Committee Chair Audit Committee member
Rodger Fisher	17/18	8/9	4/4	$90,000	Appointed 5 December 2013 Deputy Board Chair Audit Committee member Remuneration Committee member
Sarah Haydon	18/18	9/9		$81,000	Appointed 1 August 2016 Audit Committee Chair
Andrew Bonner	17/18		4/4	$66,000	Appointed 14 December 2009 Remuneration Committee member
Bill Osborne	16/18		4/4	$66,000	Appointed 1 May 2017 Remuneration Committee member
Pat Snedden	16/18			$66,000	Appointed 2 May 2012
Jon Mayson	11/18			$55,000	Appointed 1 October 2014
Karl Smith	16/18			$66,000	Appointed 1 October 2016

Principle 7
AUDITORS

Our external auditor is the Auditor-General, who appointed Brett Tomkins, a partner at Deloitte, to carry out the audit of our financial statements. We also contracted Deloitte to carry out a review of our half-year financial statements. Total fees paid to Deloitte in its capacity as auditor for the financial year were $308,000. There were no other fees paid.

Principle 8
SHAREHOLDER RIGHTS AND RELATIONS

On 2 July 2018 Auckland Council Investments Limited transferred 100% of Ports of Auckland Limited shares to Auckland Council.

At the time of the transfer a Memorandum of Understanding (MOU) was entered into between us and Auckland Council for our new shareholder relationship. The MOU:

- reaffirms that our principal objective is to operate as a successful business and that our shareholder must support that objective
- requires that both parties respect the role and responsibilities of the other party and work constructively with each other
- acknowledges that all decisions relating to our business are made by our Board of Directors in accordance with our Statement of Corporate Intent
- sets out processes for Board appointments, Director remuneration, Board reviews, dispute resolution, and the monitoring, reporting and disclosure of information.

The MOU is a public document and is available on our website.

Representatives from our Board and Executive regularly meet with Council representatives to discuss strategic issues and business performance.

SALARY BAND	CURRENT	REDUNDANCY/ SEVERANCE	RESIGNED	CURRENT & TERMINATED
$100K - $110K	68		1	69
$110K - $120K	80			80
$120K - $130K	52		3	55
$130K - $140K	31			31
$140K - $150K	27			27
$150K - $160K	13			13
$160K - $170K	7			7
$170K - $180K	7			7
$180K - $190K	2		1	3
$190K - $200K	3			3
$210K - $220K	2			2
$220K - $230K	2			2
$230K - $240K	4			4
$240K - $250K	4			4
$250K - $260K	4			4
$260K - $270K	1			1
$270K - $280K	2			2
$290K - $300K	1			1
$300K - $310K	1			1
$310K - $320K	1			1
$330K - $340K	1			1
$340K - $350K	3	1		4
$360K - $370K	1			1
$390K - $400K	2			2
$470K - $480K	1			1
$810K - $820K	1			1
Total	321	1	5	327

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF PORTS OF AUCKLAND LIMITED GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of Ports of Auckland Limited and its New Zealand domiciled subsidiaries and other controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Brett Tomkins, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Group on his behalf.

Opinion

We have audited the financial statements of the Group on pages 41 to 88, that comprise the statement of financial position as at 30 June 2020, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 17 August 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Impact of COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of COVID-19 on the Group as set out in note A1 to the financial statements.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Port Companies Act 1988.

Responsibilities of the Auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 38, but does not include the Group financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Brett Tomkins

Brett Tomkins
Deloitte Limited
On behalf of the Auditor-General
17 August 2020
Auckland, New Zealand

This audit report relates to the financial statements of Ports of Auckland Limited and its New Zealand domiciled subsidiaries and other controlled entities (collectively referred to as 'the Group') for the year ended 30 June 2020 included on Ports of Auckland's website. The Board of Directors is responsible for the maintenance and integrity of Ports of Auckland's website. We have not been engaged to report on the integrity of Ports of Auckland's website. We accept no responsibility for any changes that may have occurred to the financial statements of the Group since they were initially presented on the website. The audit report refers only to the financial statements of the Group named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements of the Group and related audit report dated 17 August 2020 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements of the Group may differ from legislation in other jurisdictions.

GROUP FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2020 $'000	2019 $'000
Revenue	A2	231,365	248,059
Expenses			
Operating expenses	A3	(156,373)	(155,416)
Depreciation and amortisation	B1, B4, B5	(27,019)	(23,579)
Finance costs	A3	(18,019)	(18,419)
Total expenses		(201,411)	(197,414)
Net (impairment) / reversal of impairment of assets	B1, B4	(4,602)	(455)
Fair value change to investment properties	B3	3,082	9,819
Net (impairment) / reversal of impairment of investments	F1, G1	(38)	(466)
Share of profit from equity accounted investments	F1	1,893	2,473
Profit before income tax		30,289	62,016
Income tax expense	A4	(7,278)	(8,094)
Profit for the period attributable to the owners of the Parent		23,011	53,922

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2020 $'000	2019 $'000
Profit for the period		23,011	53,922
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Net change in fair value of land, buildings and wharves, net of tax	E1	(20,921)	33,745
Net change in fair value of equity securities (at fair value through other comprehensive income)	F3, E1	9,862	411
Items that will not be reclassified to the income statement		(11,059)	34,156
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges, net of tax	E1	(131)	(3,845)
Items that may be reclassified subsequently to the income statement		(131)	(3,845)
Other comprehensive income net of income tax		(11,190)	30,311
Total comprehensive income for the period net of tax attributable to the owners of the Parent		11,821	84,233

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 30 JUNE 2020

	NOTES	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	D1	**2,298**	9,369
Trade and other receivables	D2	**36,977**	39,480
Inventories	D3	**6,493**	4,301
Derivative financial instruments	G2	**29**	157
Non-current assets held for sale	H2	**-**	56,000
Total current assets		**45,797**	109,307
Non-current assets			
Property, plant and equipment	B1	**1,113,456**	1,061,610
Intangible assets	B4	**88,768**	71,070
Investment properties	B3	**130,249**	143,304
Right of use assets	B5	**17,400**	-
Equity securities	F3	**53,422**	43,560
Investments in other entities	F1	**2,417**	2,504
Derivative financial instruments	G2	**16**	-
Total non-current assets		**1,405,728**	1,322,048
Total assets		**1,451,525**	1,431,355
Current liabilities			
Borrowings	E3	**3,398**	2,805
Trade and other payables	D4	**28,531**	43,317
Provisions	D5	**11,896**	10,795
Lease liabilities	H1	**2,461**	-
Derivative financial instruments	G2	**1,467**	475
Deferred income		**292**	22
Other current liabilities		**20**	15
Total current liabilities		**48,065**	57,429
Non-current liabilities			
Borrowings	E3	**486,692**	495,287
Derivative financial instruments	G2	**8,602**	9,523
Provisions	D5	**1,336**	1,293
Lease liabilities	H1	**15,275**	-
Deferred income		**2,965**	558
Deferred tax liabilities	A4	**67,370**	67,460
Total non-current liabilities		**582,240**	574,121
Total liabilities		**630,305**	631,550
Net assets		**821,220**	799,805
Equity			
Share capital		**146,005**	146,005
Reserves		**253,728**	273,402
Retained earnings		**421,487**	380,398
Total equity	E1	**821,220**	799,805

These financial statements were approved by the Board on 17 August 2020.

Signed on behalf of the Board by:

E.M. Coutts
Director

S. E. F. Haydon
Director

The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP SHARE CAPITAL $'000	OTHER RESERVES $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 30 June 2018		**146,005**	**251,632**	**360,109**	**757,746**
Change in accounting policy		-	-	*(663)*	*(663)*
Balance at 1 July 2018, as restated		**146,005**	**251,632**	**359,446**	**757,083**
Profit for the period		-	-	53,922	53,922
Other comprehensive income	E1	-	30,311	-	30,311
Total comprehensive income		-	30,311	53,922	84,233
Transactions with owners in their capacity as owners					
Dividends paid	E2	-	-	(45,929)	(45,929)
Tax benefit of losses received from owner	E1	-	-	4,418	4,418
Other movements					
Revaluation reserve reclassified to retained earnings on disposal of assets		-	(8,541)	8,541	-
Total other movements		-	(8,541)	(32,970)	(41,511)
Balance at 30 June 2019	E1	**146,005**	**273,402**	**380,398**	**799,805**
Profit for the period		-	-	23,011	**23,011**
Other comprehensive income	E1	-	(11,190)	-	**(11,190)**
Total comprehensive income		-	(11,190)	23,011	**11,821**
Transactions with owners in their capacity as owners					
Tax benefit of losses received from owner	E1	-	-	9,594	**9,594**
Other movements					
Revaluation reserve reclassified to retained earnings on disposal of assets	E1	-	(8,484)	8,484	**-**
Total other movements		-	(8,484)	18,078	**9,594**
Balance at 30 June 2020	E1	**146,005**	**253,728**	**421,487**	**821,220**

The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	NOTES	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		**277,236**	282,023
Payments to suppliers and employees		**(204,056)**	(193,203)
Dividends received		**3,491**	3,666
Interest received		**71**	126
Interest paid		**(18,503)**	(18,567)
Income taxes paid		**(1,635)**	(5,905)
Net cash flows from operating activities		**56,604**	68,140
Cash flows from investing activities			
Payments for investment property		**(5,442)**	(10,348)
Payments for intangible assets		**(21,861)**	(30,885)
Payments for property, plant and equipment		**(76,481)**	(102,446)
Interest paid – capitalised		**(4,300)**	(3,454)
Advances to related parties		**(230)**	(50)
Proceeds from sale of property, plant and equipment		**49**	17,829
Proceeds from sale of investment properties		**54,000**	2,000
Net cash flows from investing activities		**(54,265)**	(127,354)
Cash flows from financing activities			
Proceeds from borrowings		**967,500**	1,083,002
Repayment of borrowings		**(976,000)**	(965,002)
Repayment of lease principal		**(1,502)**	-
Dividends paid	E2	**-**	(45,929)
Net cash flows from financing activities		**(10,002)**	72,071
Net cash flows		**(7,663)**	12,857
Cash at the beginning of the year		**6,564**	(6,293)
Cash at the end of the year	D1	**(1,099)**	6,564

The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

Reconciliation of profit after income tax to net cash flows from operating activities

	2020 $'000	2019 $'000
Profit for the period	23,011	53,922
Adjusted for:		
Depreciation and amortisation	27,019	23,579
Movements in borrowings allocated to interest paid	(95)	(67)
Tax benefit of losses received from owner	9,597	4,418
Movement in deferred revenue	2,683	(20)
Net (gain) / loss on sale of other non-current assets	72	(215)
Fair value movements in land, buildings and wharves	4,742	(79)
Fair value adjustment to investment property	(3,082)	(9,819)
Impairment of investments	38	466
Net (reversal) / impairment of other intangible assets	(140)	534
Change in operating assets and liabilities:		
Trade and other receivables	5,203	(4,795)
Trade and other payables	(13,613)	3,064
Income tax payable	(2,204)	(416)
Deferred tax liability	(39)	(1,436)
Other provisions	1,601	480
Other operating assets	(2,190)	(171)
Movement in associates and joint ventures	280	(106)
Capital items included in working capital movements	3,721	(1,199)
Net cash flows from operating activities	56,604	68,140

Reconciliation of liabilities arising from financing activities to cash flows

	2020 $'000	2019 $'000
Interest bearing liabilities		
Opening interest bearing liabilities (excluding overdraft)	495,287	377,354
Recognition on adoption of NZ IFRS 16 Leases	15,371	-
Lease additions	1,887	-
Other non-cash movements	1,980	-
Less establishment fees (classified as interest paid under operating activities)	(95)	(67)
Cash movements		
Repayment of bank debt	(976,000)	(965,002)
Proceeds from borrowing	967,500	1,083,002
Repayment of lease principal	(1,502)	-
Closing interest bearing liabilities (excluding overdraft)	504,428	495,287

The notes and accounting policies form part of and are to be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Reporting entity and nature of operations

The financial statements presented are those of Ports of Auckland Limited (the Company), its subsidiaries and the Groups interest in associates and joint ventures (Ports of Auckland Group, or the Group).

The Company operates Auckland's main seaport on the Waitematā harbour. The Group operates regional freight hubs in South Auckland and the Bay of Plenty, including a container trucking operation from South Auckland, and has joint interests in a Manawatu freight hub, marine towage at Northport, and an online cargo management system.

Statutory base

Ports of Auckland Group is a designated for-profit entity.

Ports of Auckland Limited is a company domiciled in New Zealand, is a Port Company under the Port Companies Act 1988 and registered under the Companies Act 1993.

All subsidiaries are incorporated in New Zealand.

These Group financial statements have been prepared in accordance with the Financial Reporting Act 2013 and Companies Act 1993.

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

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards and other applicable Financial Reporting Standards, as applicable for for-profit entities, and also comply with International Financial Reporting Standards.

The Group financial statements were approved by the Board of Directors on 17 August 2020.

Basis of measurement

The Group 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

Accounting policies that summarise the measurement basis and are relevant to the understanding of the financial statements are included in the accompanying notes. Certain comparative information has been reclassified to conform with the current year's presentation.

Basis of consolidation

The Group financial statements incorporate the assets, liabilities, and results of the 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.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

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 statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities is classified as part of operating activities.

New and amended international financial reporting standards

The following standards came into effect from 1 July 2019.

NZ IFRS 16 Leases
Refer to note H1 for the detailed disclosures and quantitative impact of adopting the standard.

Standards and interpretations in issue not yet adopted

The following standard comes into effect from 1 July 2020.

Amendments to NZ IFRS 10 and NZ IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'.

SECTION A
OUR PERFORMANCE

This section explains the financial performance of the Group by:

a) displaying additional information about individual items in the Income statement;

b) providing analysis of the components of the Group's tax balances and the imputation credit account.

A1. COVID-19

The World Health Organisation declared a pandemic in March 2020 due to the outbreak of COVID-19. New Zealand entered into a four week nationwide 'Alert Level 4' lockdown commencing on 25 March 2020. Port operations continued throughout Level 4 as an essential service with extensive procedures put in place to ensure the safety of staff while at work. Ongoing restrictions put in place to fight the virus have had a significant adverse impact on the global economy. At balance date, New Zealand is operating within Alert Level 1. Strict border restrictions remain in place, and contact tracing is encouraged. In response to the COVID-19 pandemic, management has implemented the following measures:

- Appropriate health and safety responses to ensure the continuity of its business operations under each of the Alert Levels, whilst complying with the applicable public health and social measures for that level;
- Reduced operating costs and capital expenditure (where applicable deferring non-essential capital projects or non-critical expenditure);
- Assessed the impact of reduced economic activity and lower revenues due to the COVID-19 pandemic on the carrying value of the Group's financial and non-financial assets.

Following the announcement made on 11 August 2020 regarding new community transmission within the Auckland region, the company has re-activated a number of COVID-19 controls.

Certain key judgements and estimates are applied in the annual financial statements. The Directors have assessed the impact of COVID-19 on these judgements and estimates and concluded that limited changes were necessary, and have been made.

The financial performance and position of the Group has been impacted by the COVID-19 global pandemic in the following ways:

Revenue

Volume through the multi-cargo wharves was down substantially during and following Level 4 lockdown, with some cargo deemed non-essential and therefore unable to be handled. Equally container volumes have been impacted, as the global effects of the pandemic developed, with smaller ship exchanges or cancelled sailings.

With the New Zealand border restrictions, all cruise revenue ceased, and the reduction in ship calls has impacted marine services revenue.

Depreciation on buildings

The enactment of COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 has resulted in the reintroduction of depreciation on buildings. Note A4 has the quantum of the movement in deferred tax as a result of this legislative change.

Revaluations and impairment of assets

Land and Investment Property were valued at balance date. The Group engaged two valuers. Port Operations Land was valued by CBRE Limited and Investment Property and Other Operations Land were valued by Colliers International, both valuers are independent registered valuers. The valuations were concluded on the basis of 'material valuation uncertainty' as the pandemic has created a higher degree of uncertainty than would not otherwise be the case. Management has held discussions with both valuers to understand the estimates and judgements applied in determining the valuation in this uncertain environment and are comfortable that these inputs are appropriate considering current market conditions. The valuers, where appropriate, have considered alternative valuation techniques in order to support the derived valuation recorded in the financial statements.

The methodology applied in the valuations is consistent with prior years, although certain key estimates have been adjusted. Further details are included in note B1, B2 and B3.

The Group has evaluated whether any impairment indicators exist against its other cash generating units and recognised an impairment where appropriate. Refer to note B1.

A1. COVID-19 (CONTINUED)

Credit risk

While COVID-19 has placed pressure on business worldwide, no significant impact on trade receivables has been experienced. The expected credit losses are based on historical credit loss experience, adjusted to reflect current conditions and estimates of future economic conditions. In making this assessment, Management has taken into account information about current and prospective macroeconomic factors affecting the ability of debtors to repay the receivables. Refer note G1 and D2.

Borrowings

The Group interest cover ratio covenant within the negative pledge deed has been reduced by debt providers for the period 1 October 2020 to 30 June 2021 in light of trading uncertainty introduced by COVID-19.

Notwithstanding the effect of the pandemic on operations, management has considered and reaffirmed the Group's application of the going concern basis of accounting after taken into account its cash and cash equivalents position, forecasted cash flows and access to existing borrowings and undrawn loan and overdraft facilities.

A2. REVENUE

	2020 $'000	2019 $'000
Revenue		
Revenue from contracts with customers	**219,609**	230,890
Rental income	**9,548**	11,057
Gain on disposal of property, plant and equipment	**44**	1,385
Dividend income	**1,318**	1,299
Interest income	**71**	126
Other income	**775**	3,302
Total revenue	**231,365**	248,059

Recognition and measurement

Revenue from contracts with customers

A summary of the Group's performance obligations are outlined below. The Group has not disclosed the aggregate amount of the transaction price allocated to the performance obligations that are partially satisfied at year-end as they relate to contractual obligations of an expected duration of less than a year, and thus meet the practical expedient requirement within the standard. Payment terms for all revenue from contracts with customers are typically the 20th of the following month.

The determination of the transaction price, including the estimation of variable consideration, where applicable, is calculated in line with contractual arrangements.

Marine services revenue
Contracts are entered into with vessel operators for the provision of marine services and berthage. The performance obligations identified include vessel arrival, departure and berthage. The identified performance obligations are satisfied over time, and revenue is recognised based on labour hours expended (vessel arrival and departure), and time elapsed (berthage). Consequently, the methods used to record this revenue are based on inputs. The transaction price is determined by the contract, and typically is an all-inclusive rate which is apportioned across each performance obligation based on these input methods.

Container terminal revenue
The performance obligations identified for shipping lines which berth at the Fergusson container terminal include marine services (as identified above), and the ship exchange (load and/or discharge of containers, which include the services required to support the handling of containers). Container terminal revenue is recognised over time based on the number of containers loaded or discharged (an output method). This method is considered appropriate as it allows revenue to be recognised based on the Group's effort to satisfy the performance obligation. The transaction price is adjusted by variable consideration (i.e. customer rebates), and revenue is only recognised on the basis that it is highly probable that a significant reversal will not occur.

Multi-cargo revenue
Contracts are entered into with vessel operators for the provision of marine services and berthage (as identified above) and goods wharfage. The stevedoring services are provided by third-party operators. Goods wharfage (being the provision of space) is satisfied over time, and therefore revenue is recognised based on time elapsed, from the point that cargo is transferred from vessel to land (or vice versa), being an output method. The transaction price for goods wharfage is determined by the contract.

Container transportation revenue

Contracts are entered into with cargo owners or freight forwarders to collect and transport containers to or from the port. There are predictable legs for each container which have the same pattern of transfer (typically 3-4 legs in each containers life cycle), and as such meet the criteria for revenue recognition over time as the obligation to provide transportation services is satisfied. As such, each contract is accounted for as a single performance obligation, and the transaction price is determined by the contract.

Disaggregation of revenue from contracts with customers

	2020 $'000	2019 $'000
Container terminal	**119,231**	128,668
Multi-cargo	**41,027**	43,125
Marine services	**38,348**	39,455
Container transportation	**21,003**	19,642
Total revenue from contracts with customers	**219,609**	230,890

The categories of disaggregated revenue above represent the segments where the financial performance of the Group is evaluated. These revenue items are of a similar nature and timing.

Rental income

Rental income is recognised on a straight line basis over the lease term.

Dividend and other income

Dividend and other income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Government grant income

The Group have deferred income relating to the recently introduced research and development tax incentive scheme. This is accounted for under NZ IAS 20 Government Grants, with the deferred income being released systematically over the useful life of the asset to which the grant relates. At balance date there is no income through profit or loss, as the asset is still a work in progress.

A3. EXPENSES

Operating Expenses

	2020 $'000	2019 $'000
Employee benefit expenses		
Salaries and wages	**77,713**	71,627
Restructuring costs	**187**	34
Pension costs	**2,687**	2,470
Total employee benefit expenses	**80,587**	74,131
Other operating expenses		
Contracted services	**34,635**	37,055
Repairs and maintenance	**14,160**	14,798
Fuel and power	**5,965**	6,153
Loss on disposal of property, plant and equipment – refer note B1	**115**	1,170
Other expenses	**20,603**	21,802
Auditor's fees		
Audit and review of statutory financial statements	**308**	307
Total other operating expenses	**75,786**	81,285
Total operating expenses	**156,373**	155,416

Finance costs

	2020 $'000	2019 $'000
Interest on bank overdraft and bank loans	**12,496**	12,847
Establishment & line fees	**245**	243
Interest on fixed rate notes	**8,775**	8,783
Interest on lease liabilities	**803**	-
Capitalised interest	**(4,300)**	(3,454)
Total finance costs	**18,019**	18,419

Donation expenses are $13,692 (2019: $103,100) and are recognised within other expenses.

Recognition and measurement

Employee expenses

Provision is made for benefits owing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when earned by employees at rates expected to be incurred when the benefit is utilised.

Provisions for long service leave and sick leave entitlements that are expected to be paid in future periods, but have not yet vested, are recognised reflecting the probability that benefits will vest.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to contributions.

Bonus plans are recognised as a liability and an expense based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The provision is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Finance costs

Finance costs include bank interest, amortisation of costs incurred in connection with borrowings facilities, and interest on lease liabilities. Finance costs are expensed immediately as incurred unless they relate to acquisition and development of qualifying assets, in which case the finance cost is capitalised.

A4. TAXATION

Income statement	2020 $'000	2019 $'000
Current income tax		
Current year	5,698	6,998
Adjustment for prior years	1,619	779
Deferred income tax		
Temporary differences	1,351	217
Tax effect of re-introduction of building depreciation	(2,181)	-
Adjustment for prior years	791	100
Income tax expense	7,278	8,094
Statement of changes in equity		
Cash flow hedges and property, plant and equipment	(51)	(1,495)
Income tax reported in equity	(51)	(1,495)

Reconciliation of effective tax rate

	2020 $'000	2019 $'000
Profit before income tax	30,289	62,016
Tax at 28%	8,481	17,364
Adjustments		
Non-taxable income	(753)	(5,407)
Non-deductible expenses	489	1,889
Adjustment for prior years	2,410	879
Loss offset utilisation	-	(4,790)
Tax effect of re-introduction of building depreciation	(2,181)	-
Dividend imputation credits	(1,357)	(1,426)
Sundry items	189	(415)
Income tax expense	7,278	8,094

Ports of Auckland Limited will utilise losses from the Auckland Council Tax Group in the 2020 tax return. Auckland Council has a subvention payment agreement and loss offset election with Watercare Services Limited which will be utilised for any residual taxable income. It is expected that no losses will be required from Watercare Services Limited for the 2020 tax return.

Imputation credits

	2020 $'000	2019 $'000
Imputation credits available for subsequent reporting periods	74,309	72,894

A4. TAXATION (CONTINUED)

Movement in deferred tax balance

	CASH FLOW HEDGES $'000	PROPERTY, PLANT AND EQUIPMENT $'000	INVESTMENT PROPERTY $'000	INTANGIBLE ASSETS $'000	PROVISIONS $'000	DEFERRED REVENUE $'000	OTHER $'000	TOTAL $'000
Balance at 30 June 2018	(1,260)	68,125	2,020	2,832	(4,967)	2,147	-	68,897
Transition adjustment (NZ IFRS 15)	-	-	-	-	*(258)*	-	-	*(258)*
Balance at 1 July 2018, as restated	**(1,260)**	**68,125**	**2,020**	**2,832**	**(5,225)**	**2,147**	**-**	**68,639**
Recognised in income statement	-	801	(1,005)	390	158	(28)	-	316
Recognised in other comprehensive income	(1,495)	-	-	-	-	-	-	(1,495)
Balance at 30 June 2019	**(2,755)**	**68,926**	**1,015**	**3,222**	**(5,067)**	**2,119**	**-**	**67,460**
Recognised in income statement	-	(687)	328	137	80	(28)	132	**(38)**
Recognised in other comprehensive income	(52)	-	-	-	-	-	-	**(52)**
Balance at 30 June 2020	**(2,807)**	**68,239**	**1,343**	**3,359**	**(4,987)**	**2,091**	**132**	**67,370**

Recognition and measurement

Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised on the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in the statement of comprehensive income or directly in equity, respectively.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and by unused tax losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent it is probable they will be utilised.

The purchase of losses from related parties under commercial arrangements is debited to income tax in the income statement.

Tax losses received from entities within the Auckland Council tax group flow through equity as a contribution by the shareholder.

Imputation credits

The amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

a) Imputation credits that will arise from the payment of the amount of the provision for income tax;

b) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

c) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

SECTION B
CAPITAL ASSETS USED TO OPERATE OUR BUSINESS

This section explains the capital assets such as property, plant and equipment that the Group use to operate the business. It also includes detail on the revaluation methodologies used to value different types of capital assets.

B1. PROPERTY, PLANT AND EQUIPMENT

	FREEHOLD LAND $'000	WHARVES $'000	FREEHOLD BUILDINGS $'000	PLANT AND EQUIPMENT $'000	PAVEMENT $'000	OTHER $'000	TOTAL $'000
Net book value at 1 July 2018	**342,349**	**316,143**	**29,088**	**152,629**	**75,469**	**21,066**	**936,744**
Movement							
Additions	-	1,795	26,296	57,880	16,250	2,608	104,829
Disposals	-	-	-	(554)	-	(37)	(591)
Revaluations – Reserves	33,745	-	-	-	-	-	33,745
Revaluations – Income Statement	79	-	-	-	-	-	79
Reclassifications / Transfers	2,737	-	-	-	3,985	-	6,722
Depreciation charge	-	(4,673)	(891)	(9,534)	(1,818)	(3,002)	(19,918)
Movement to 30 June 2019	36,561	(2,878)	25,405	47,792	18,417	(431)	124,866
Balances							
Cost and/or fair value	378,910	317,121	43,840	212,171	79,972	52,203	1,084,217
Work in progress at cost	-	1,018	11,835	128,276	31,595	6,312	179,036
Accumulated depreciation	-	(4,874)	(1,182)	(140,026)	(17,681)	(37,880)	(201,643)
Net book value at 30 June 2019	**378,910**	**313,265**	**54,493**	**200,421**	**93,886**	**20,635**	**1,061,610**
Movement							
Additions	2,606	683	28,864	34,616	6,268	5,761	**78,798**
Disposals	-	-	-	(2)	-	(71)	**(73)**
Revaluations – Reserves	(20,923)	-	-	-	-	-	**(20,923)**
Revaluations – Income Statement	58	-	-	-	-	-	**58**
Impairment	-	-	-	(4,800)	-	-	**(4,800)**
Reclassifications / Transfers	19,962	-	(721)	-	721	19	**19,981**
Depreciation charge	-	(4,695)	(1,457)	(10,315)	(1,836)	(2,892)	**(21,195)**
Movement to 30 June 2020	1,703	(4,012)	26,686	19,499	5,153	2,817	**51,846**
Balances							
Cost and/or fair value	378,007	317,138	45,667	206,432	80,749	54,463	**1,082,456**
Work in progress at cost	2,606	1,685	38,150	153,051	37,806	9,540	**242,838**
Accumulated depreciation	-	(9,570)	(2,638)	(139,563)	(19,516)	(40,551)	**(211,838)**
Net book value at 30 June 2020	**380,613**	**309,253**	**81,179**	**219,920**	**99,039**	**23,452**	**1,113,456**

Property, plant and equipment additions include capitalised finance costs of $4,299,902 (2019: $3,454,113). The average effective interest rate used is 3.6% (2019: 3.9%).

The impairment of plant and equipment relates to the bunker barge operated by Seafuels, a wholly owned subsidiary. There are indicators of impairment on the basis that the charter agreement currently in place may be terminated.

B1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Recognition and measurement

Property, plant and equipment

Properties held for use in the supply of services for port operation purposes are classified as property plant and equipment.

Property, plant and equipment are initially recognised at cost. The cost of property plant and equipment includes expenditure that is directly attributable to bring the item to working condition for its intended use.

Costs may include materials used in construction, direct labour, transfers from equity of gains / losses on qualifying cash flow hedge reserves of foreign currency purchases and associated borrowing costs.

Borrowing costs may be capitalised where they are directly attributable to the acquisition or construction of a qualifying asset. A qualifying asset is deemed as having significant expenditure and takes more than six months to bring the item to working condition for its intended use. The capitalisation rate used to determine the amount of borrowings to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

Expenditure on an asset is recognised as an asset if it is probable that the future economic benefits will flow to the entity, and if the cost of the asset can be measured reliably. This principle applies for both initial and subsequent expenditure. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Plant and equipment, pavement and other assets are carried at cost less accumulated depreciation and impairment losses.

Revaluations

Land, buildings and wharves are carried at fair value as determined by an independent registered valuer, less accumulated depreciation and any impairment losses recognised after the date of any revaluation.

Land, buildings and wharves acquired or constructed after the latest revaluation are carried at cost, which approximates fair value. Revaluations are carried out with sufficient regularity, at least triennial, to ensure that the carrying amount does not differ materially from fair value at balance date.

Revaluation increments are recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve, except to the extent that they reverse a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement.

Revaluation decreases are recognised in the income statement, except to the extent that they offset a previous revaluation increase for the same asset, in which case the decrease is recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve.

Accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the assets and the net amounts are restated to the revalued amounts of the assets.

Depreciation

Depreciation is calculated on a straight line basis to allocate the cost or revalued amount of an asset, less any residual value, over its estimated useful life. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 - 50 years
Wharves	50 - 100 years
Plant and equipment	5 - 20 years
Pavement	25 - 85 years
Other assets	3 - 20 years

Disposals

An item of property, plant and equipment is derecognised upon disposal or when no further future benefits are expected from its use.

Gains or losses arising on derecognition of an asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, are included in the income statement in the year the asset is derecognised.

Any revaluation reserve relating to the particular asset being disposed or derecognised is transferred to retained earnings.

B2. PROPERTY, PLANT AND EQUIPMENT VALUATION

Valuation approach

At the end of each reporting period the Group makes an assessment of whether the carrying amounts differ materially from fair value and whether a revaluation is required. For the year ended 30 June 2020, all freehold land was revalued as at 30 June 2020 in accordance with the New Zealand Institute of Valuers asset valuation standards.

Freehold land is the land used as part of the core port operations (Port Operations Land) or is required to be held for other operational purposes (Other Operations Land). The valuation of Port Operations Land was undertaken by CBRE, registered valuers. The Other Operations Land valuation was undertaken by Colliers International, registered valuers.

Port Operations Land has been valued using the income approach by way of a discounted cash flow model, as the primary basis. Other Operations Land is valued with a combination of the market approach using a comparable sales model and the income approach using a capitalised market income model.

The valuations of the independent valuers are reviewed by management and adopted as the carrying value in the financial statements. Management verifies all major inputs to the valuation, assesses valuation movements when compared to the prior year and holds discussions with the independent valuers as part of the process.

This valuation approach has been undertaken in order to provide an independent assessment of the current value of the assets.

The Group's land, buildings and wharves are all categorised as Level 3 in the fair value hierarchy as described in the note G1 financial risk management – fair value note.

During the financial year there were no transfers between the levels of the fair value hierarchy.

Port Operations Land Valuation

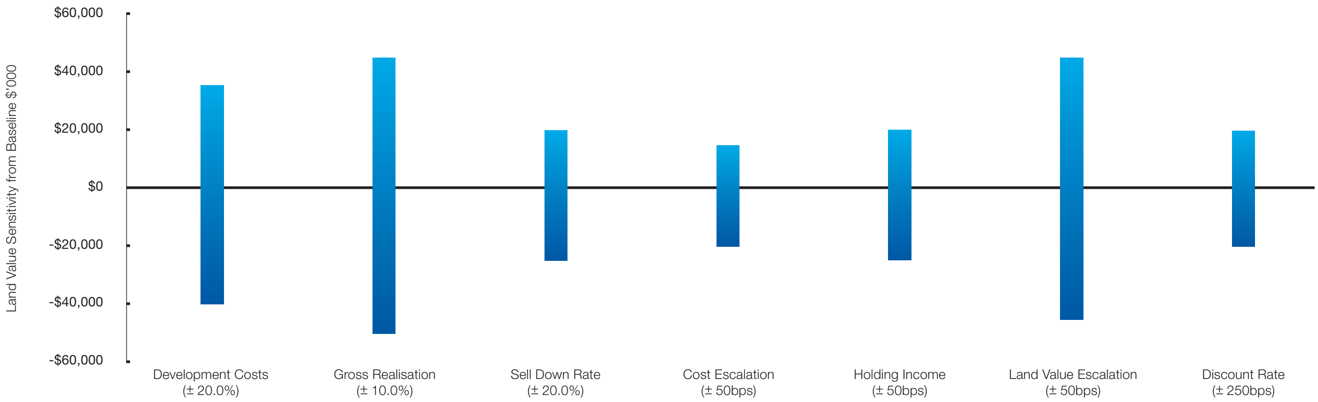
The following table summarises the valuation techniques and key assumptions used by the valuers to arrive at fair value for Port Operations Land:

		2020	2019
ASSET VALUATION TECHNIQUE	INPUTS USED TO MEASURE FAIR VALUE	RANGE OF SIGNIFICANT UNOBSERVED INPUTS	RANGE OF SIGNIFICANT UNOBSERVED INPUTS
Discounted Cash Flow model Given the size and location of the land, the discounted cash flows are based on the assumption that the land will be developed and sold in five stages. Each stage will consist of 16 superlots with an average lot size of 5,000 sqm, with consenting to take 12 years and the sell down over 19 years (31 year period).	Land sales price The rate is based on site intensity and height being lower than that in the CBD because of the zoning of the port precinct	$5,700 per sqm, for a 5,000 sqm allotment	$5,900 per sqm, for a 5,000 sqm allotment
	Site development costs have been estimated based on work undertaken by Beca Group, engineering consultants	Beca Group development costs at 2019 rates	Beca Group development costs updated for 2019 rates
	Discount rate	10.59%	10.59%
	Sales price escalation	0% - 3.0% over the term	2.50% over the term
	Cost escalation	3.00% over the term	3.00% over the term
	Occupancy rate for holding income	50%	50%

B2. PROPERTY, PLANT AND EQUIPMENT VALUATION (CONTINUED)

Port Operations Land value discounted cash flow sensitivity

The chart below highlights the extent to which the valuation of the Port Operations Land varies relative to changes in key variables. Each variable is flexed by an amount not considered unreasonable in a market context and the resulting swing in value relative to this flex is presented in isolation of changes to the other variables. To accumulate the impact of these independent sensitivities would typically not be appropriate, as changes in one will commonly be offset by changes in another.



The baseline assumption on Port Operations Land value, for the planning and consenting period, is 12 years. The table below indicates the sensitivity on land value, given different timeframes.

Value sensitivity to planning timeframes	INDICATED VALUE INCREASE / (DECREASE) $'000
15 year planning & consenting period	(34,000)
18 year planning & consenting period	(59,000)

Other Operations Land Valuation

The following table summarises the valuation techniques and key assumptions used by the valuers to arrive at fair value for significant Other Operations Land:

		2020	2019
ASSET VALUATION TECHNIQUE	INPUTS USED TO MEASURE FAIR VALUE	RANGE OF SIGNIFICANT UNOBSERVED INPUTS	RANGE OF SIGNIFICANT UNOBSERVED INPUTS
Comparable sales model	Land sales price CBD	$5,161 per sqm to $5,900 per sqm	$5,050 per sqm to $5,900 per sqm
	Land sales price non CBD	$225 per sqm to $270 per sqm	

Port operations wharves and freehold buildings valuation

Port operations wharves and buildings are valued at least every three years and were revalued at 30 June 2018 by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors, to fair value. A review of the carrying value of wharves and buildings has been undertaken at June 2020 and it is unlikely to be materially different to the fair value.

The fair value for the wharves, buildings, structures, civil works and support assets was derived using the Depreciated Replacement Cost (DRC) methodology. The calculation of fair value has been prepared using straight line depreciation.

In preparing the financial values for wharves, buildings, structures, civil works and support assets, the valuers have researched estimated Gross Current Replacement Costs (GCRC), these are required in order to calculate the depreciation amounts to arrive at the Depreciated Replacement costs (DRC).

The following table summarises the valuation technique and key assumptions used by the valuers to arrive at fair value:

ASSET VALUATION TECHNIQUE	INPUTS USED TO MEASURE FAIR VALUE	RANGE OF SIGNIFICANT UNOBSERVED INPUTS
Depreciated replacement cost derived from modern equivalent asset rate	Wharves economic life	100 years
	Wharf buildings economic life	50 years
	Residual value at the end of economic life	15%
	Depreciation	Straight line
	Piles unit cost of construction per sqm	\$999 - \$2,045
	Wharf Platform unit cost of construction per sqm	\$1,575 - \$3,238
	Fenders unit cost of construction per sqm	\$82 - \$170
	Services unit cost of construction per sqm	\$112 - \$227
	Total unit cost of construction per sqm	\$2,767 - \$5,680

The following table shows the impact on the fair value due to a change in significant unobservable inputs for Land, Buildings and Wharves:

		FAIR VALUE MEASUREMENT SENSITIVITY TO SIGNIFICANT	
		INCREASE IN INPUT	DECREASE IN INPUT
Land			
Land sales price	The rate per square metre of recently sold properties of a similar nature.	Increase	Decrease
Discount rate	The rate, determined through analysis of comparable market-related sales transactions, which is applied to a property's future net cash flows to convert those cash flows into a present value.	Decrease	Increase
Sale price escalation	The annual escalation rate applied to property sales prices over an assumed holding period.	Increase	Decrease
Site development costs escalation	The annual escalation rate applied to site development costs over an assumed holding period.	Decrease	Increase
Market capitalisation rate	The rate used to calculate market value from the property's deemed annual market rental.	Decrease	Increase
Buildings and Wharves			
Unit cost of construction	The costs of constructing various asset types based on a variety of sources including recent local competitive tendered construction works, published cost information, the valuer's database of costing information and experience of typical industry rates and indexed historical cost information.	Increase	Decrease

B3. INVESTMENT PROPERTIES

	2020 $'000	2019 $'000
At fair value		
Balance at 1 July	**143,304**	184,284
Capitalised subsequent expenditure	**3,844**	11,923
Reclassifications / Transfers (refer note B1)	**(19,981)**	(6,722)
Transfers from / (to) assets held for sale	**-**	(56,000)
Net gain / (loss) from fair value adjustment	**3,082**	9,819
Balance at 30 June	**130,249**	143,304

During the year, a portion of the Waikato Freight Hub (investment property) has been reclassified to the Waikato Inland Port (property, plant and equipment), with a carrying value of $20.0m. This change in use has occurred to reflect the portion of land that is now operated by Ports of Auckland Ltd.

The prior year fair value adjustment includes the fair value uplift on Pikes Point of $8,260,000, prior to being classified as non-current assets held for sale, refer to note H2.

The Group's investment properties are all categorised as Level 3 in the fair value hierarchy as described in the financial risk management – fair value note G1. At the end of the reporting period there were no transfers of investment properties between the levels in the fair value hierarchy.

Recognition and measurement

Investment properties

Investment properties includes properties which are not intended for port operation purposes and are held with the principal objective to earn rental and/or capital appreciation or both (including property being constructed or developed for future use as investment property). Investment properties are carried at fair value, representing open market value determined annually by an independent registered valuer. Changes in fair values are recorded in the income statement in the year in which they arise. Investment properties are not depreciated for financial accounting purposes.

Transfers are made to or from investment properties when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use.

A transfer to investment properties may be evidenced by ending owner occupation, commencement of an operating lease to another party or commencement of construction or development for future use as investment property. This includes commencement of owner occupation, or of development with a view to owner occupy.

A transfer from investment properties may be evidenced by the commencement of a contractual arrangement which allows the property to offer more to the Group than solely rental returns and/or capital appreciation. This includes commencement of owner occupation, or of development with a view to owner occupy.

Investment properties will be measured at cost until a fair value can be reliably determined.

Investment properties are derecognised when they have been disposed of. The net gain or loss on disposal is calculated as the difference between the carrying amount of the investment property at the time of the disposal and the proceeds on disposal and is included in the income statement in the reporting period in which the disposal settled.

Valuation approach

The Group's accounting policy is for investment properties to be measured at fair value, which reflects market conditions at the balance date. To determine fair value, the Group obtain an investment properties valuation annually by an independent registered valuer.

The valuations as at 30 June 2020 and 30 June 2019 were performed by Colliers International. The valuers are registered valuers and have experience in the location and category of the investment properties being valued.

The valuations of the independent valuers are reviewed by management and adopted as the carrying value in the financial statements subject to any specific adjustments required. Management verifies all major inputs to the valuation, assesses valuation movements when compared to the prior year and holds discussions with the independent valuers as part of the process.

The Group's investment property portfolio comprises a mixture of lessor's interest in both terminating and perpetual ground leases together with freehold land and waterspace licences. The waterspace licences are treated in the same way as land in this portfolio as their value as investments have similar characteristics.

The value of the lessor's interest in the land is essentially only the right to receive the rental income and the right to review the income periodically when scheduled reviews and renewals occur.

The valuation is based on market evidence at the date of valuation. The valuation methodologies used were based on direct sales comparison, or a direct capitalisation of rental income using market comparisons of capitalisation rates, supported by a discounted cash flow approach.

The following table summarises the valuation techniques and the key assumptions relating to the major inputs used in establishing the fair values of significant properties:

		2020	2019
ASSET VALUATION TECHNIQUE	INPUTS USED TO MEASURE FAIR VALUE	RANGE OF SIGNIFICANT UNOBSERVED INPUTS	RANGE OF SIGNIFICANT UNOBSERVED INPUTS
Market capitalisation A valuation technique which determines fair value by capitalising a property's sustainable net income at an appropriate, market derived rate of return with subsequent capital adjustments for near-term events, typically including letting up allowances, capital expenditure and the difference between contract and market rentals.	Market capitalisation rate – rental income	3.75% to 6.50%	4.25% to 6.75%
Direct sales comparison A valuation technique whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.	Industrial land sales per sqm	\$225 to \$675 per sqm	\$190 to \$620 per sqm

The following table shows the impact on the fair value due to a change in a significant unobservable input:

		FAIR VALUE MEASUREMENT SENSITIVITY TO SIGNIFICANT:	
		INCREASE IN INPUT	DECREASE IN INPUT
Unobservable inputs within the market capitalisation valuation approach			
Gross market rent or licence fee	The annual amount for which a tenancy or licence within a property is expected to achieve under a new arm's length leasing or licensing transaction, including a fair share of property operating expenses.	Increase	Decrease
Market capitalisation rate	The rate of return, determined through analysis of comparable, market-related sales transactions, which is applied to a property's sustainable net income to derive value.	Decrease	Increase
Unobservable inputs within direct sales comparison valuation approach			
Rate per sqm	The rate per square metre of recently sold properties of a similar nature	Increase	Decrease

B4. INTANGIBLE ASSETS

	COMPUTER SOFTWARE $'000	TOTAL $'000
Net book value at 1 July 2018	**44,293**	**44,293**
Movement		
Additions	30,438	30,438
Amortisation charge	(3,661)	(3,661)
Movement to 30 June 2019	26,777	26,777
Balances		
Cost	42,117	42,117
Work in progress at cost	52,589	52,589
Accumulated amortisation and impairment	(23,636)	(23,636)
Net book value at 30 June 2019	**71,070**	**71,070**
Movement		
Additions	21,781	**21,781**
Disposals	(97)	**(97)**
Amortisation charge	(3,986)	**(3,986)**
Movement to 30 June 2020	17,698	**17,698**
Balances		
Cost	45,867	**45,867**
Work in progress at cost	70,490	**70,490**
Accumulated amortisation and impairment	(27,589)	**(27,589)**
Net book value at 30 June 2020	**88,768**	**88,768**

Recognition and measurement

Computer software

Computer software licences are capitalised and are recognised as intangible assets. The internal costs directly attributable to the development of business software are only recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits.

These assets have a finite life and are amortised on a straight line basis over their estimated useful lives of three to ten years.

Where estimated useful lives have diminished due to technology change, amortisation is accelerated.

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

B5. RIGHT OF USE ASSETS

	LEASED LAND $'000	LEASED EQUIPMENT $'000	LEASED BUILDINGS $'000	LEASED OTHER $'000	TOTAL $'000
Net book value at 1 July 2018	**-**	**-**	**-**	**-**	**-**
Balances					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Net book value at 30 June 2019	**-**	**-**	**-**	**-**	**-**
Transition to NZ IFRS 16 at 1 July 2019	*11,604*	*2,497*	*1,255*	*15*	*15,371*
Movement					
Additions during period	-	1,887	-	-	**1,887**
Lease payment adjustments	1,914	-	-	-	**1,914**
Modification to lease term	-	66	-	-	**66**
Depreciation charge	(679)	(1,045)	(106)	(8)	**(1,838)**
Movement to 30 June 2020	12,839	3,405	1,149	7	**17,400**
Balances					
Cost	13,518	4,451	1,255	14	**19,238**
Accumulated depreciation	(679)	(1,046)	(106)	(7)	**(1,838)**
Net book value at 30 June 2020	**12,839**	**3,405**	**1,149**	**7**	**17,400**

Right of use assets relate to assets that the Group lease from third parties. The Group adopted NZ IFRS 16 Leases from 1 July 2019, note H1 outlines the change in accounting policy.

Recognition and measurement

Right of use assets

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement of the lease. The Group applies NZ IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in the property, plant and equipment policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in operating expenses in profit or loss.

SECTION C
KEY JUDGEMENTS MADE

This section includes the critical judgments, estimates and assumptions made by the Group about the carrying amounts of certain assets and liabilities.

C1. 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.

The following are the critical estimates and judgements management has made in the process of applying the Group's accounting policies and that have the most significant impact on the amounts recognised in the financial statements.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The determination of the estimated useful lives has a significant impact on the timing of recognition of depreciation expense (refer to note B1).

Fair value of property, plant and equipment and investment property

The Group revalues investment property annually and property, plant and equipment (specifically land, buildings and wharves) at least every three years or when the fair value of a revalued asset differs materially from its carrying amount. The valuation is performed by independent registered valuers. The revaluation requires judgement around the highest and best use of the property, plant and equipment, and an estimation of the amounts for which these assets could be sold in an orderly transaction between market participants at the measurement date (refer to note B2 and B3). The determination of value for these assets has a significant impact on the total asset value reported and in the case of property, plant and equipment the depreciation expense recognised (refer to note B1).

Classification of investment properties

The Group classifies assets as investment property if they are not intended for port operation purposes, and are held with the principal objective to earn rental and/or capital appreciation. At times, the distinction can be subjective and dependent on the particular facts and circumstances of the property in question.

The Group reviews leases entered into, including any related contractual service agreements to determine the nature, if any, of contractual ancillary services provided in helping determine this classification.

Investment properties are held at fair value with revaluations recognised in the income statement, therefore, the determination of whether assets are investment property or property, plant and equipment can have a material effect on both profit or loss, and on the carrying value of the asset (if the alternative classification is not required to be held at fair value).

Fair value of derivative financial instruments

The fair value of derivative financial instruments is determined by valuation experts using various valuation techniques. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance date (refer to note G2).

Income tax

The Group has historically utilised tax losses from the Auckland Council Group of companies for nil consideration. The quantum of losses estimated for the current financial year is based on Auckland Council's best estimate of the losses to be provided to the Group (refer to note A4).

C2. IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever there is an indication of impairment. At each balance date, the Group reviews the carrying amounts of its other tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable value. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

SECTION D
OPERATING ASSETS AND LIABILITIES USED TO OPERATE OUR BUSINESS

This section provides further analysis of the operating assets and liabilities of the Group. These comprise the significant working capital balances used by the Group to run its day to day operating activities.

D1. CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash and cash equivalents		
Cash on hand	1	1
Bank balances	2,298	9,368
Total cash and cash equivalents	2,299	9,369
Interest Bearing Liabilities		
Bank overdrafts – refer to note E3	(3,398)	(2,805)
Total cash as per statement of cash flows	(1,099)	6,564

Recognition and measurement

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

The carrying amount for cash and cash equivalents equals the fair value.

Bank overdraft

Bank overdrafts are shown within interest bearing liabilities in current liabilities on the statement of financial position.

The bank overdraft facility limit and maximum amount of credit to be made available to the Group is $10,000,000, which is primarily used for short term working capital requirements. The interest rate is based upon the Reserve Bank of New Zealand's "Official Cash Rate" plus a marginal rate of 1.0% (2019: 1.0%) and interest is calculated on the daily balance outstanding refer to note E3.

Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note G1 and note E3.

Fair value disclosures

Details of the fair value of interest bearing liabilities for the Group are set out in note E3.

Details of the security relating to each of the unsecured liabilities and further information on the bank overdrafts and bank loans are set out in note E3.

Statement of cash flows

The following explains the terms used in the statement of cash flows:

- Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.
- Financing activities are the activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

D2. TRADE AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Trade receivables		
Trade receivables	**28,876**	30,088
Related party receivables	**132**	116
Sundry receivables	**1,188**	537
Unprocessed credit notes	**(15)**	(359)
Provision for impairment of trade receivables	**(226)**	(170)
Net trade receivables	**29,955**	30,212
Other receivables		
Other assets	**4,125**	6,974
Prepayments	**2,897**	2,294
Total trade and other receivables	**36,977**	39,480

The aging of trade receivables at reporting date was:

	2020 $'000	2019 $'000
Aged receivables		
Current	**16,552**	20,294
30 days	**8,435**	7,218
60 days	**1,100**	1,612
90 days	**535**	377
Over 90 days	**2,386**	703
Total aged receivables	**29,008**	30,204

As at 30 June 2020 current trade receivables of the Group with a value of $36,312 (2019: $8,801) were written off.

Trade receivables of $12,455,830 (2019: $9,381,000) were past due but not impaired as at 30 June 2020. These relate to a number of independent customers for whom there is no recent history of default, refer to note G1 for credit risk analysis.

There have been collections in the 90+ days bucket after balance date of $1,768,000.

Expected credit loss has been updated to take into account the expected recoverability as it relates to COVID-19. In making this assessment, current and prospective economic factors have been considered.

The average credit period for trade receivables at 30 June 2020 is 46.34 days (2019: 45.27 days).

Other assets relate to contractual receivables for the creation of roading at the Waikato Freight Hub.

Recognition and measurement

Trade receivables

Trade receivables are recognised at fair value, less a loss allowance for expected credit losses.

Trade receivables are generally on terms of the 20th of the following month.

The carrying amount of trade receivables is reduced through the use of a loss allowance for trade receivables and the amount of the loss is recognised in the income statement within 'other expenses'. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

The impairment policy for trade receivables (including the methods, assumptions and information used to measure expected credit losses) is outlined within the credit risk disclosure in note G1.

D3. INVENTORIES

	2020 $'000	2019 $'000
Inventories		
Inventories at cost	6,285	4,125
Net realisable value reclassification	208	176
Total inventories	6,493	4,301

The cost of inventories recognised as an expense during the year was $8,393,002 (2019: $8,940,220).

Recognition and measurement

Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs.

D4. TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Trade payables	15,672	19,820
Related party payables	101	4,611
Other payables	1,921	826
Accruals	10,837	18,060
Total trade and other payables	**28,531**	**43,317**

Recognition and measurement

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

The fair value of trade and other payables approximates their carrying value.

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

D5. PROVISIONS

	2020 $'000	2019 $'000
Current		
Employee benefits	**10,552**	8,962
ACC partnership programme	**265**	254
Other provisions	**1,079**	1,579
Total current provisions	**11,896**	10,795
Non-current		
Employee benefits	**1,336**	1,293
Total non-current provisions	**1,336**	1,293
Total provisions	**13,232**	12,088

Recognition and measurement

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

On 26 August 2019, two formal notifications of charges from Worksafe New Zealand were received. On 24 July 2020, Ports of Auckland Ltd, was sentenced and fined $424,000 for an offence under section 48 of the Health and Safety at Work Act 2015. This fine has been provided for within the financial statements.

The remaining charge has not yet been resolved and the current best estimate of the potential obligation has been recognised within the financial statements, and the timing of which is currently uncertain. Details of this charge and amount remain confidential and are not disclosed to avoid any prejudice to the Company.

ACC Partnership Programme

The Group is a partner in the Accident Compensation Commission (ACC) Partnership Programme. Under the Partnership Programme the Group is liable for all its claim costs for a period of two years up to a specified maximum. At the end of the two year period, the Group pays a premium to ACC for the value of residual claims, the liability for ongoing claims from that point passes back to ACC.

The liability for ACC Partnership Programme is recognised in provisions and measured as the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques.

ACC liability valuation

An independent actuarial valuer (AON New Zealand) has calculated the Group's liability, as at 30 June 2020. The valuer has attested satisfaction as to the nature, sufficiency and accuracy of the data used to determine the outstanding liability.

The valuation carried out as at 30 June 2020 produced a value for the ACC reserve of $264,800 (2019: $253,800). Pre valuation date claim inflation has been taken as 50% (2019: 50%) of movements in the CPI and 50% (2019: 50%) of the movements in the Average Weekly Earnings (AWE) Index. Post valuation date claim inflation rates and the discount rates used to value the liabilities are based on Treasury issued future rates and risk free rates as at 31 May 2020.

The Group is not exposed to any significant concentrations of insurance risks as work related injuries are generally the result of an isolated event to an individual employee.

SECTION E
HOW WE FUND OUR BUSINESS

This section explains how the Group funds its business and shows the source of other funding facilities that can be used to fund future operational or investing activities.

E1. EQUITY AND RESERVES

Share Capital

	2020 SHARES	2019 SHARES	2020 $'000	2019 $'000
Ordinary shares				
Balance at 1 July	**156,005,192**	156,005,192	**146,005**	146,005
Balance at 30 June	**156,005,192**	156,005,192	**146,005**	146,005

At 30 June 2020, there were 156,005,192 (2019: 156,005,192) ordinary shares issued, 146,005,192 ordinary shares are fully paid ($1.00 per share) and 10,000,000 ordinary shares remain unpaid at the end of the financial year.

Reserves

	CASH FLOW HEDGES $'000	PROPERTY, PLANT AND EQUIPMENT REVALUATION $'000	FAIR VALUE CHANGES OF EQUITY SECURITIES $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance at 30 June 2018	**(3,240)**	**229,147**	**25,725**	**360,109**	**611,741**
Change in accounting policy	-	-	-	*(663)*	*(663)*
Balance at 1 July 2018, as restated	**(3,240)**	**229,147**	**25,725**	**359,446**	**611,078**
Profit for the period	-	-	-	53,922	53,922
Dividends	-	-	-	(45,929)	(45,929)
Revaluations	-	33,745	-	-	33,745
Changes in fair value of cash flow hedges	(9,124)	-	-	-	(9,124)
Transfer to profit / (loss)	3,784	-	-	-	3,784
Changes in fair value of investments	-	-	411	-	411
Deferred tax	1,495	-	-	-	1,495
Tax benefit of losses received from owner	-	-	-	4,418	4,418
Revaluation reserve reclassified to retained earnings on disposal of assets	-	(8,541)	-	8,541	-
Balance at 30 June 2019	**(7,085)**	**254,351**	**26,136**	**380,398**	**653,800**
Profit for the period	-	-	-	23,011	**23,011**
Revaluations	-	(20,921)	-	-	**(20,921)**
Changes in fair value of cash flow hedges	(4,068)	-	-	-	**(4,068)**
Transfer to profit / (loss)	3,885	-	-	-	**3,885**
Changes in fair value of investments	-	-	9,862	-	**9,862**
Deferred tax	52	-	-	-	**52**
Tax benefit of losses received from owner	-	-	-	9,594	**9,594**
Revaluation reserve reclassified to retained earnings on disposal of assets	-	(8,484)	-	8,484	**-**
Balance at 30 June 2020	**(7,216)**	**224,946**	**35,998**	**421,487**	**675,215**

The revaluations which accumulated within the property, plant and equipment reserve relating to the Pikes Point property have been released to retained earnings.

Recognition and measurement

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share; they carry a right to dividends and a share of net assets on a wind up.

Reserves

Hedging reserve – cash flow hedges
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge. The amounts are recognised in the income statement when the associated hedged transactions affect profit or loss.

Property, plant and equipment revaluation reserve
The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

Fair value changes of equity securities
The fair value of equity securities reserve is used to record the fair value changes on listed securities. The fair value movements are recognised in the statement of comprehensive income.

E2. DIVIDENDS

	CENTS PER SHARE	2020 $'000	2019 $'000
2018 Final dividend	18.70	-	27,303
2019 Interim dividend	12.76	-	18,626
Total dividends paid		-	**45,929**

Recognition and measurement

Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

E3. BORROWINGS

	2020			2019		
	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000
Current						
Unsecured						
Bank overdraft – refer note D1	**10,000**	3,398	6,602	10,000	2,805	7,195
Total current interest bearing liabilities	**10,000**	**3,398**	**6,602**	10,000	2,805	7,195
Non-Current						
Unsecured						
Other bank loans	**420,000**	317,125	102,500	420,000	325,770	93,999
Fixed rate notes	**170,000**	169,567	-	170,000	169,517	-
Total non-current borrowings	**590,000**	**486,692**	**102,500**	590,000	495,287	93,999
Total borrowings	**600,000**	**490,090**	**109,102**	600,000	498,092	101,194

Recognition and measurement

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Other bank loans

A revolving advances facility agreement was signed on 27 July 2015. Bilateral revolving advance facility agreements were signed with Westpac New Zealand Limited, ANZ Bank New Zealand Limited and MUFG Bank Limited. The duration period of the revolving advances facility range from three years to five years. The period until maturity has been renegotiated in the current year for additional three to five year periods with maturities now ranging between November 2021 and July 2024.

The revolving advances facility is subject to a negative pledge deed dated 29 October 2013. This deed is entered into in substitution and replacement of an existing negative pledge deed dated 17 July 1995 (as varied and restated by a deed dated 19 December 2005 and as varied by deeds dated 18 May 2007, 24 November 2009 and 29 October 2013). The deed is for the benefit of Westpac New Zealand Limited, ANZ Bank New Zealand Limited and MUFG Bank Limited.

The current and non-current borrowings are unsecured. The Group borrows under a negative pledge arrangement which requires certain certificates and covenants. The negative pledge deed sets out a minimum interest cover requirement (1.5:1) and a maximum gearing ratio percentage requirement (65%). There have been no breaches of this negative pledge during the financial year. The Group's risk management policies are disclosed in note G1.

The interest rate is based on BKBM (bank bill bid settlement) rate plus a margin range of 0.77% to 0.93% per annum (2019: 0.50% to 0.93% per annum). The Group generally borrows funds on a 90 days term (2019: 90 days term).

Fixed rate notes

On 21 June 2018, Ports of Auckland Limited, received long term funding in the form of unsecured notes, via three fixed rate tranches with terms of 10, 12 and 15 years, with final maturities in 2028, 2030 and 2033 respectively.

Each tranche is shared evenly between two investors, Metlife Investments and Pricoa Capital Group.

Interest is paid semi-annually.

The fixed rate notes are subject to the same negative pledge deed as the other bank loans outlined above.

Fair value

The carrying amounts of the bank overdraft and other bank loans approximate their fair values as all debt amounts are based on either floating interest rates or short term (90 days or less) fixed rates.

The fair value of the fixed rate notes is calculated by discounting the future contractual cash flows at current market interest rates that are available for similar financial instruments. Refer to note G1.

SECTION F
GROUP STRUCTURE

This section provides information on the legal structure of the Group including how it affects financial performance and the financial position of the Group. It also includes details of acquired businesses.

F1. INVESTMENTS IN OTHER ENTITIES

	INVESTMENT IN JOINT VENTURES $'000	INVESTMENT IN ASSOCIATES $'000	TOTAL $'000
Carrying value of equity accounted investments			
Balance at 1 July 2018	**1,741**	**1,074**	2,815
Share of profit / (loss) after income tax	2,473	-	2,473
Dividends received	(2,368)	-	(2,368)
Impairment	(252)	(214)	(466)
Movement in advances	-	50	50
Balance at 30 June 2019	**1,594**	**910**	**2,504**
Share of profit / (loss) after income tax	1,893	-	**1,893**
Dividends received	(2,172)	-	**(2,172)**
Reversal of impairment	101	-	**101**
Impairment	-	(139)	**(139)**
Movement in advances	-	230	**230**
Balance at 30 June 2020	**1,416**	**1,001**	**2,417**

The Group have advanced funds to Longburn Intermodal Freight Hub Limited & Port Connect Limited. Both shareholder advances are repayable on demand, and interest may be charged at commercial rates.

Refer to note F2 – Related parties for disclosure on subsidiaries, investments in associates and joint ventures.

Recognition and measurement

Investments and advances

The investments in joint ventures and associates are equity accounted. Refer to F2, for the Group accounting policies.

Advances are held at amortised cost, less provision for impairment.

Note G1 sets out information about the impairment of financial assets and the Group's exposure to credit risk.

F2. RELATED PARTIES

Subsidiaries

	PLACE OF BUSINESS	CLASS OF SHARES	EQUITY HOLDING 2020 %	EQUITY HOLDING 2019 %
Bunker Shipz Limited	New Zealand	Ordinary	**100**	100
Seafuels Limited	New Zealand	Ordinary	**100**	100
Waikato Freight Hub Limited	New Zealand	Ordinary	**100**	100
Nexus Logistics Limited	New Zealand	Ordinary	**100**	100
Conlinxx Limited	New Zealand	Ordinary	**100**	100

Associates and joint ventures

	PRINCIPAL ACTIVITY	PLACE OF BUSINESS	CLASS OF SHARES	EQUITY HOLDING 2020 %	EQUITY HOLDING 2019 %
Associates					
Longburn Intermodal Freight Hub Limited	Container terminal operation – marine cargo	New Zealand	Ordinary	**33.3**	33.3
Joint ventures					
North Tugz Limited	Marine towage	New Zealand	Ordinary	**50**	50
Port Connect Limited	Online cargo management system	New Zealand	Ordinary	**50**	50

Summary financial information of associates and joint ventures

	AGGREGATE BALANCE 2020 $'000	AGGREGATE BALANCE 2019 $'000
Assets and liabilities		
Current assets	**3,482**	3,964
Non-current assets	**27,728**	30,651
Total assets	**31,210**	34,615
Current liabilities	**3,089**	6,610
Non-current liabilities	**17,670**	14,070
Total liabilities	**20,759**	20,680
Net assets	**10,451**	13,936
Results		
Revenue	**14,775**	14,975
Expenses	**(11,197)**	(10,835)
Net profit after tax	**3,578**	4,140
Total comprehensive income	**3,578**	4,140

The associates and joint ventures had contingent liabilities of $nil as at 30 June 2020 (2019: $nil). Capital commitments as at 30 June 2020 are $nil (2019: $230,000).

Related party outstanding balances

	2020 $'000	2019 $'000
Current receivables		
Auckland Council Group	44	26
Associates and joint ventures	88	90
Total current receivables	132	116
Non-current receivables		
Associates and joint ventures	2,246	2,054
Total non-current receivables	2,246	2,054
Current payables		
Auckland Council Group	32	4,477
Associates and joint ventures	69	134
Total current payables	101	4,611

In the current year, non-current receivables was impaired by $38,000 (2019: $466,000). The impairment relates to the shareholder advances to equity accounted investees, refer to note G1.

Related party transactions

	2020 $'000	2019 $'000
Auckland Council Group		
Services provided by the Group	325	313
Services provided to the Group	2,021	2,344
Net dividend paid to Auckland Council	-	45,929
Subvention payment to Watercare Services Ltd for tax losses	1,641	5,920
Tax losses gifted by Auckland Council to the Group	9,594	4,418
Sale of Port of Onehunga	-	17,820
Associates and joint ventures		
Services provided by the Group	492	280
Services provided to the Group	678	571
Net dividends received	2,172	2,368
Advances	230	50

Key management personnel compensation

	2020 $'000	2019 $'000
Directors' fees	690	682
Salaries and other short term employee benefits	4,691	4,547
Termination costs	-	-
Total key management compensation	5,381	5,229

F2. RELATED PARTIES (CONTINUED)

Recognition and measurement

Related parties

All subsidiaries, associates and joint ventures are related parties to the Group. Auckland Council wholly owns Ports of Auckland Limited. All council controlled organisations (CCOs) of Auckland Council are considered related parties to the Group.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

All intra group transactions, balances, income and expenses are eliminated in full on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and

ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under NZ IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

As a result of loss of control of a subsidiary when a joint venture is formed through the contribution of the subsidiary, the Group's Board and management have chosen to account for the loss of control under NZ IAS 28. NZ IAS 28 requires that when non-monetary contributions are made to a joint venture, a gain or loss is recognised only in relation to the portion no longer owned.

Associates and joint ventures

Associates are those entities over which the Group 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 entity. 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 amount of the investment. Dividends reduce the carrying value of the investment.

The amount recognised in the income statement and statement of comprehensive income reflects the Group's share of earnings of associates and joint ventures and its movement in reserves. Investments in associates and joint ventures are carried at the lower of the equity accounted amount and the recoverable amount. 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.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group has applied NZ IFRS 11 to all joint arrangements. Under NZ IFRS 11 Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

The interests in North Tugz Limited, PortConnect Limited and Longburn Intermodal Freight Hub Limited are accounted for in the Group financial statements using the equity method of accounting.

All joint ventures and associates have a 30 June year end.

Related Party Transactions

All services provided by and to Ports of Auckland Group entities are entered into in the normal course of business on standard commercial terms.

Auckland Council Group

Auckland Council Group entities include: Auckland Council (Parent), Watercare Services Limited, Panuku Development Auckland, Auckland Transport and Auckland Tourism Events and Economic Development Group.

The services provided to Ports of Auckland Group entities from Auckland Council Group entities is made up of operating costs such as water and rates charged. The transactions between Ports of Auckland Limited and Auckland Council Group entities include dividends, tax loss offsets, management fees and port charges.

Associates and joint ventures
The services provided to Ports of Auckland Limited from associates and joint ventures are made up of port operating costs. The services provided by Ports of Auckland Limited to associates and joint ventures include lease arrangements for property, management fees and port charges.

Ports of Auckland Limited receives a dividend stream from North Tugz Limited.

Ports of Auckland Limited has advanced funds to PortConnect Limited and Longburn Intermodal Freight Hub Limited. Refer to note F1 for further information.

Directors

During the year, the Group entered into transactions with companies in which there are common directorships. These transactions have occurred on an arm's length commercial basis, without special privileges.

Key management personnel compensation

The key management personnel are all the directors of the company, the Chief Executive Officer and his direct reports who have the greatest authority for the strategic direction and management of the company.

The Group provides life insurance to some key management personnel. There are no other non-cash benefits provided to directors and other key management personnel in addition to their fees or salaries.

F3. EQUITY SECURITIES

	2020 $'000	2019 $'000
Balance at 1 July	**43,560**	43,149
Movements through reserves	**9,862**	411
Balance at 30 June	**53,422**	43,560

Equity securities represent an investment holding of 19.9% in Marsden Maritime Holdings Limited, that offer the Group the opportunity for returns through dividend income and fair value gains.

The fair value of these securities is based on quoted market prices. Fair value changes in the investment are recognised in other comprehensive income.

The Group's equity securities are all categorised as Level 1 as described in the financial risk management – fair value note G1.

Recognition and measurement

Equity securities

The Group has made an irrevocable election to classify the equity securities at fair value through other comprehensive income (FVOCI). Upon disposal, any related balance within the FVOCI reserve is reclassified to retained earnings.

The gains or losses on the equity securities are recognised in other comprehensive income, except for any impairment losses. Dividends on FVOCI equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

The Group assesses at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Equity instruments are deemed to be impaired when there is a significant or prolonged decline in fair value below the original purchase price.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices.

SECTION G
HOW WE MANAGE FINANCIAL RISK

This section describes the financial risks that the Group have identified and how it manages these risks to protect its financial position and performance. Risk management includes the use of financial instruments to hedge against unfavourable interest rate and foreign currency movements.

G1.FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk and equity price risk).

This note presents information about the Group's exposure to the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group has a treasury policy which limits exposure to market risk for changes in interest rates and foreign currency, counter-party credit risk and liquidity risk.

The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

The Group does not hold derivative financial instruments for speculative purposes.

Credit risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty on its contractual obligations.

Financial instruments which potentially subject the Group to credit risk, principally consist of bank balances, trade and other receivables, advances to equity accounted investees and derivative financial instruments.

Risk management

Credit risk is managed for cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to trade receivables transactions. Derivative counterparties and cash transactions are limited to high credit quality financial institutions who currently have a Standard & Poors long-term credit rating of AA- or better. Limits are placed on the exposure to any one financial institution and the usage of these limits is determined by assigning product weightings to the principal amount of the transaction. The Group minimises its credit risk by spreading such exposures across a number of counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

The Group's credit risk is also attributable to trade receivables which comprise a large number of customers, spread across diverse industries. The Group only extends credit after performing a credit assessment, which may include a review of their financial strengths, previous credit history with the Group, payment habits with other suppliers, bank references and credit rating agency reports.

Approximately 62% (2019: 67%) of trade receivables at balance date is reflected by the Group's ten largest customers. At balance date approximately 25% (2019: 24%) of the trade receivables related to one customer. The Group is satisfied with the credit quality of the customer and does not anticipate any non-performance.

Impairment of financial assets

The following financial assets are subject to the expected credit loss model:

- Cash and cash equivalents
- Trade receivables
- Advances to equity accounted investees.

Trade receivables

The Group has applied the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. When a trade receivable is considered uncollectable, it is written off against the provision.

To measure the expected credit loss, the trade receivables have been grouped in accordance with their shared credit risk characteristics and the days past due. Historical loss rates are adjusted to reflect current and forward-looking information. The Group identified domestic GDP and the unemployment rate, alongside global macroeconomic factors such as global growth, and fuel prices, to be the most relevant credit risk factors. The loss rates are adjusted based on expected changes in these factors.

The trade receivables loss allowance as at 30 June 2020 was determined as follows:

$'000s	CURRENT	30 DAYS PAST DUE	60 DAYS PAST DUE	90 DAYS PAST DUE	120 DAYS PAST DUE	TOTAL
30 June 2019						
Expected loss rate	0.15%	0.79%	1.49%	3.71%	6.25%	
Gross carrying amount	20,293	7,218	1,612	377	704	30,204
Loss allowance	**31**	**57**	**24**	**14**	**44**	**170**
30 June 2020						
Expected loss rate	**0.22%**	**0.94%**	**2.44%**	**8.24%**	**1.65%**	
Gross carrying amount	**16,552**	**8,435**	**1,100**	**535**	**2,386**	**29,008**
Loss allowance	37	79	27	44	39	226

Advances to equity accounted investees

The advances to equity accounted investees are repayable on demand, and as such the expected credit losses are based on the assumption that repayment of the loan is demanded at reporting date.

The closing loss allowance for advances to equity accounted investees as at 30 June 2020 reconciles to the opening loss allowance as follows:

	$'000
Balance at 30 June 2019	466
Increase in loss allowance recognised in profit or loss during the year	38
Balance at 30 June 2020	**504**

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet obligations as they fall due. The Group manages the risk by targeting a minimum liquidity level by continuously forecasting cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's exposure to liquidity risk based on undiscounted contractual cash flows relating to non-derivative financial liabilities is shown below:

	LESS THAN 6 MONTHS $'000	6-12 MONTHS $'000	1-2 YEARS $'000	2-5 YEARS $'000	5+ YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT LIABILITIES $'000
Balance at 30 June 2019							
Trade and other payables	43,317	-	-	-	-	43,317	43,317
Borrowings	19,913	8,138	234,570	129,750	224,793	617,164	498,092
Total non-derivative liabilities	63,230	8,138	234,570	129,750	224,793	660,481	541,409
Balance at 30 June 2020							
Trade and other payables	28,531	-	-	-	-	**28,531**	**28,531**
Borrowings	27,089	6,225	62,097	290,865	216,191	**602,467**	**490,090**
Total non-derivative liabilities	**55,620**	**6,225**	**62,097**	**290,865**	**216,191**	**630,998**	**518,621**

G1.FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's exposure to liquidity risk based on undiscounted contractual cash flows relating to derivative financial liabilities is shown below:

	LESS THAN 6 MONTHS $'000	6-12 MONTHS $'000	1-2 YEARS $'000	2-5 YEARS $'000	5+ YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT LIABILITIES $'000
Balance at 30 June 2019							
Interest rate swaps (net settled)	1,807	1,813	3,029	3,049	331	10,029	9,657
Forward exchange contracts							
Inflows	(4,981)	(7,739)	-	-	-	(12,720)	
Outflows	5,075	7,990	-	-	-	13,065	
Net forward exchange contracts	94	251	-	-	-	345	341
Total derivative liabilities	1,901	2,064	3,029	3,049	331	10,374	9,998
Balance at 30 June 2020							
Interest rate swaps (net settled)	2,493	1,700	2,463	3,075	304	**10,035**	**9,887**
Forward exchange contracts							
Inflows	(871)	(6,655)	-	-	-	**(7,526)**	
Outflows	882	6,826	-	-	-	**7,708**	
Net forward exchange contracts	**11**	**171**	**-**	**-**	**-**	**182**	**181**
Total derivative liabilities	**2,504**	**1,871**	**2,463**	**3,075**	**304**	**10,217**	**10,068**

Market risk

Foreign currency risk

Foreign currency risk is the risk arising from the variability of the NZD currency values of the Group's assets, liabilities and operating cash flows, caused by changes to foreign exchange rates.

The Group does not have any material exposure to currency risk except for the one off purchases of assets (e.g. plant and equipment) denominated in foreign currencies. The main foreign currencies the Group transacts with are EUR and USD. The Group treasury policy requires that foreign exchange contracts must be entered into for the purchase of major items of plant and equipment and that the full amount of the purchase must be hedged.

Foreign exchange instruments approved under the treasury policy are forward exchange contracts and currency options.

Interest rate risk

Interest rate risk is the risk of loss to the Group arising from adverse fluctuation in interest rates.

The Group has exposure to interest rate risk as a result of long-term borrowings which are used to fund ongoing activities. The Group aims to reduce uncertainty of changes in interest rates by entering into floating-to-fixed interest rate swaps to fix the effective rate of interest to minimise the impact of interest rate volatility on earnings.

By using floating-to-fixed interest rate swaps, the Group agrees with other parties, to exchange, at specific intervals (normally quarterly), the difference between the fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amount

Effects of hedge accounting on the financial position and performance

Forward exchange contracts

The effects of the foreign currency related hedging instruments on the Group's financial position and financial performance are outlined in the table below. The maturity date for the outstanding forward exchange contracts range from July 2020 to October 2021 (PY: August 2019 to May 2020).

	2020 $'000	2019 $'000
USD Forward Exchange Contracts		
Carrying amount – asset	**-**	157
Notional amount	**-**	2,366
Hedge ratio		1:1
Change in discounted spot value of outstanding hedging instruments during financial year	**-**	25
Change in value of hedged item used to determine hedge effectiveness	**-**	(25)
Weighted average hedged rate for the year	**-**	USD 0.7185:NZD 1
EUR Forward Exchange Contracts		
Carrying amount – asset	**45**	-
Notional amount	**6,075**	-
Hedge ratio	**1:1**	-
Change in discounted spot value of outstanding hedging instruments during financial year	**45**	-
Change in value of hedged item used to determine hedge effectiveness	**(45)**	-
Weighted average hedged rate for the year	**EUR 0.5729:NZD 1**	-
EUR Forward Exchange Contracts		
Carrying amount – liability	**(181)**	(341)
Notional amount	**7,708**	13,065
Hedge ratio	**1:1**	1:1
Change in discounted spot value of outstanding hedging instruments during financial year	**(93)**	(583)
Change in value of hedged item used to determine hedge effectiveness	**93**	584
Weighted average hedged rate for the year	**EUR 0.5579:NZD 1**	EUR 0.5688:NZD 1

Interest rate swaps
The effects of the interest rate swaps on the Group's financial position and financial performance are outlined in the table below. The maturity date for the outstanding interest rate swaps range from December 2020 to June 2026 (PY: June 2019 to June 2026).

	2020 $'000	2019 $'000
Interest rate swaps		
Carrying amount – liability	**(9,887)**	(9,657)
Notional amount	**130,000**	140,000
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments during financial year	**(4,106)**	(5,514)
Change in value of hedged item used to determine hedge effectiveness	**4,089**	5,618
Weighted average hedged rate for the year	**4.12%**	4.13%

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 JUNE 2020		30 JUNE 2019	
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Bank overdrafts and bank loans	**1.2%**	**320,898**	2.5%	328,805
Interest-rate swaps – notional value	**4.1%**	**130,000**	4.1%	140,000

An analysis by maturities of interest rate swaps is provided in note G2 and a summary of terms and conditions of bank overdrafts and bank loans in note E3.

G1. FINANCIAL RISK MANAGEMENT (CONTINUED)

Equity price risk

The Group is exposed to equity price risk because of equity securities held in Marsden Maritime Holdings Limited. The fair value of the equity securities is based on quoted market prices from NZX at the end of the financial period.

The Group is not exposed to commodity price risk.

Summarised sensitivity analysis

At balance date, the Group had the following mix of financial assets and liabilities exposed to interest rate risk, foreign exchange risk and equity price risk after considering hedging instruments.

	2020 $'000	2019 $'000
Financial assets		
Cash and cash equivalents	**2,298**	9,369
Equity securities	**53,422**	43,560
Total financial assets	**55,720**	52,929
Designated in hedge relationship		
Derivative financial assets		
Forward exchange contracts	**45**	157
Derivative financial liabilities		
Interest rate swaps	**9,887**	9,657
Forward exchange contracts	**182**	341
Total designated in hedge relationship	**10,024**	9,841
Financial liabilities		
Interest bearing liabilities	**490,090**	498,092
Total financial liabilities	**490,090**	498,092

A change in the variables below with all other variables held constant, would increase/(decrease) the Group's net exposure by the amounts shown below:

	2020		2019	
	PROFIT BEFORE TAX $'000	EQUITY $'000	PROFIT BEFORE TAX $'000	EQUITY $'000
Interest rate risk				
25 basis point increase (2018: 25 basis points)	**(474)**	**750**	(449)	1,039
25 basis point decrease (2018: 25 basis points)	**474**	**(761)**	449	(1,057)
Foreign exchange risk				
10% increase in value of NZ dollar	**(192)**	**(1,238)**	(843)	(1,375)
10% decrease in value of NZ dollar	**192**	**1,513**	843	1,680
Equity price risk				
10% increase in equity prices	**-**	**5,342**	-	4,356
10% decrease in equity prices	**-**	**(5,342)**	-	(4,356)

Fair value

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the financial year end date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily NZX equity investments classified as at fair value through other comprehensive income (PY: available-for-sale).

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using the following valuation techniques:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the financial year end date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3: The Group engages external, independent and qualified valuers to determine:

- The fair value of the Group's investment property at the end of every annual reporting period, and
- The fair value of the Group's land, buildings and wharves that are classified as property plant and equipment every three years.

Any transfers in the fair value hierarchy is disclosed in note B2, along with an analysis for the fair value approaches used.

The following table presents the Group's assets and liabilities measured and recognised at fair value on a recurring basis:

	LEVEL	2020 $'000	2019 $'000
Equity securities	1	**53,422**	43,560
Derivative financial assets			
Interest rate swaps	2	**-**	-
Foreign exchange contracts	2	**45**	157
Total derivative financial assets		**45**	157
Derivative financial liabilities			
Interest rate swaps	2	**9,887**	9,657
Foreign exchange contracts	2	**182**	341
Total derivative financial liabilities		**10,069**	9,998
Non-financial assets			
Investment properties	3	**130,249**	143,304
Land	3	**380,613**	378,910
Buildings	3	**81,179**	54,493
Wharves	3	**309,253**	313,265
Total non-financial assets		**901,294**	889,972

G1.FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables (excluding prepayments), advances to equity accounted investees, equity securities, trade and other payables, interest bearing liabilities and derivative financial instruments.

The total carrying amount of the Group's financial assets and liabilities are detailed below:

	CARRIED AT COST OR AMORTISED COST $'000	CARRIED AT FAIR VALUE $'000	AVAILABLE-FOR-SALE $'000
Balance at 30 June 2019			
Financial assets			
Cash and cash equivalents	9,369	-	-
Trade receivables	37,186	-	-
Joint venture and associate advances	2,054	-	-
Equity securities	-	-	43,560
Designated in a hedge relationship			
Derivative financial assets	-	157	-
Derivative financial liabilities	-	(9,998)	-
Financial liabilities			
Trade and other payables	(42,491)	-	-
Interest bearing liabilities	(498,092)	-	-

	CARRIED AT COST OR AMORTISED COST $'000	CARRIED AT FAIR VALUE $'000	AVAILABLE-FOR-SALE $'000
Balance at 30 June 2020			
Financial assets			
Cash and cash equivalents	**2,298**	**-**	**-**
Trade receivables	**31,380**	**-**	**-**
Joint venture and associate advances	**2,246**	**-**	**-**
Equity securities	**-**	**-**	**53,422**
Designated in a hedge relationship			
Derivative financial assets	**-**	**45**	**-**
Derivative financial liabilities	**-**	**(10,069)**	**-**
Financial liabilities			
Trade and other payables	**(26,610)**	**-**	**-**
Interest bearing liabilities	**(490,090)**	**-**	**-**

The fair value of financial liabilities held at amortised cost are detailed below. This excludes floating rate bank debt, and trade and other payables, as their carrying values approximate their fair values.

	TRANCHE 1 $'000	TRANCHE 2 $'000	TRANCHE 3 $'000	TOTAL $'000
Balance at 30 June 2019				
Interest bearing liabilities – fixed rate notes				
Final maturity date	21 June 2028	21 June 2030	21 June 2033	
Coupon	4.81%	5.06%	5.32%	
Carrying value – refer E3	57,839	55,841	55,837	**169,517**
Fair value	64,498	63,510	64,924	**192,932**
Balance at 30 June 2020				
Interest bearing liabilities – fixed rate notes				
Final maturity date	**21 June 2028**	**21 June 2030**	**21 June 2033**	
Coupon	**4.81%**	**5.06%**	**5.32%**	
Carrying value – refer E3	**57,860**	**55,857**	**55,850**	**169,567**
Fair value	**67,751**	**69,633**	**72,783**	**210,167**

The fair value of the fixed rate notes has been calculated as the present value of the future cash flows.

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors balance sheet strengths and flexibility using cash flow forecast analysis and detailed budgeting processes. In addition, consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Group's statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratio as at 2020 is 37% (2019: 38%).

G2. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 $'000	2019 $'000
Current assets		
Forward foreign exchange contracts	29	157
Total current derivative assets	29	157
Non-current assets		
Forward foreign exchange contracts	16	-
Total non-current derivative assets	16	-
Total non-current derivative assets	**45**	**157**
Current liabilities		
Forward foreign exchange contracts	182	341
Interest rate swaps	1,285	134
Total current derivative liabilities	1,467	475
Non-current liabilities		
Interest rate swaps	8,602	9,523
Total non-current derivative liabilities	8,602	9,523
Total derivative liabilities	**10,069**	**9,998**

The notional principal amounts of the interest rate swap contracts are as follows:

	2020 $'000	2019 $'000
Less than 1 year	40,000	10,000
1 - 2 years	40,000	40,000
2 - 3 years	-	40,000
3 - 4 years	25,000	-
4 - 5 years	10,000	25,000
Greater than 5 years	15,000	25,000
Total	**130,000**	**140,000**

G2. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Recognition and measurement

Derivatives

The Group uses derivative financial instruments to reduce exposure to fluctuations in interest rates and foreign currency exchange rates. The use of hedging instruments is governed by treasury policy approved by the Board.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value, at balance date, with an adjustment made for credit risk in accordance with NZ IFRS 13 'Fair Value Measurement'. The fair values are estimated on the basis of the quoted market prices for similar instruments in an active market or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. Changes in the fair value of derivatives which have been successfully designated as part of a cash flow hedge relationship are recognised in the cash flow hedge reserve, to the extent they are effective. Any accounting ineffectiveness is recognised in the income statement. If the derivative is not designated as a hedged instrument, the resulting gain or loss is recognised immediately in the income statement.

Hedge accounting

The Group manages its exposure to fluctuations in interest rate and foreign currency exchange rates through the use of derivatives.

At the start of a hedge relationship, the Group formally designates and documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of exposure to variability in cash flows that is attributable to a particular risk associated with an asset or liability or to highly probable forecast transactions (cash flow hedges).

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve, while the gain or loss relating to the ineffective portion is recognised in the income statement.

Amounts recognised in equity are recycled in the income statement in the period when the hedged item will affect profit or loss (for instance when the interest payment that is hedged takes place). The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings are recognised in the income statement within finance costs when the related interest is recognised. When the forecast transaction that is hedged results in the recognition of an item of property, plant and equipment, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the item of property, plant and equipment. The deferred amounts are ultimately recognised in the income statement when the item of property, plant and equipment is depreciated.

If a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any amounts previously recognised in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur amounts previously recognised in equity are transferred to the income statement.

Fair value

The Group's derivative financial assets and liabilities are all categorised in Level 2 in the fair value hierarchy as described in note G1 financial risk management – fair value.

Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies.

All derivatives are designated as hedging instruments.

Interest rate swap contracts – cash flow hedges

Bank loans of the Group currently bear a weighted average variable interest rate of 1.22% (2019: 2.48%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Company has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 27% (2019: 28%) of the loan principal outstanding and are timed to expire as interest and loan repayments fall due. The fixed interest rates range between 2.85% and 5.79% (2019: 2.85% and 5.79%) and the maturity dates range between 23 December 2020 and 21 June 2026.

During the current financial year no new interest rate swap contracts were put in place.

Interest rate swap contracts require settlement of net interest payable or receivable each quarter. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

Forward exchange contracts – cash flow hedges

The Group is party to forward exchange contracts in order to manage foreign exchange risk. The Group's risk management policy is to hedge purchases of major items of plant and equipment in foreign currencies only.

The cash flows are expected to occur at various dates between six months to one year from the balance date.

At 30 June 2020, the Group had outstanding forward exchange contracts equivalent to $13,782,686 (2019: $15,431,222) for an electric tug boat.

Hedging Reserves

The Group's hedging reserves disclosed in note E1 relate to the following hedging instruments:

	INTEREST RATE SWAPS $'000	FORWARD EXCHANGE CONTRACTS $'000	TOTAL HEDGE RESERVE $'000
Balance at 1 July 2018	**5,661**	**(2,421)**	**3,240**
Changes in fair value of hedging instrument recognised in OCI	5,578	3,546	**9,124**
Interest expense reclassified from OCI to profit or loss	(3,784)	-	**(3,784)**
Deferred tax	(502)	(993)	**(1,495)**
Balance at 30 June 2019	**6,953**	**132**	**7,085**
Changes in fair value of hedging instrument recognised in OCI	**4,116**	**(48)**	**4,068**
Interest expense reclassified from OCI to profit or loss	**(3,885)**	**-**	**(3,885)**
Deferred tax	**(65)**	**13**	**(52)**
Balance at 30 June 2020	**7,119**	**97**	**7,216**

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure an economic relationship exists between the hedged item and the hedged instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match, and therefore it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rate. Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to differences in critical terms between the interest rate swaps and loans.

SECTION H
OTHER DISCLOSURES

This section includes the remaining information for the Group that is required to be presented to comply with financial reporting requirements.

H1. CHANGES IN ACCOUNTING POLICIES

This note outlines the impact of the application of NZ IFRS 16 Leases.

In the current year, the Group, for the first time, has applied NZ IFRS 16 Leases. The date of initial application of NZ IFRS 16 for the Group is 1 July 2019. The Group has applied the standard using the modified retrospective approach, consequently comparative information has not been restated as permitted under the specific transitional provisions in the standard.

Group as lessee

Lease liabilities have been recognised for leases previously classified as operating leases under NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.94%.

The right of use assets have been recognised at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the statement of financial position immediately before the date of initial application.

The Group had no leases previously classified as finance leases.

Group as lessor

The Group is lessor to a number of leases, all of which are, and will continue to be, classified as operating leases. The accounting treatment of leases where the Group is lessor has not changed, and lease income is recognised on a straight line basis over the course of the lease arrangement.

Adjustments recognised on adoption

Operating lease commitments disclosed at 30 June 2019 (applying NZ IAS 17) includes only the non-cancellable period of the lease agreement. Under NZ IFRS 16, lease liabilities include any right of renewal, if the Group is reasonably certain to exercise those rights. The operating lease commitments at 30 June 2019 reconcile to the opening lease liabilities recognised in the statement of financial position as follows.

Operating lease commitments disclosed as at 30 June 2019	**3,591**
Add: Rights of renewals reasonably certain to be exercised	19,691
	23,282
Discounted using the lessee's incremental borrowing rate at the date of initial application	15,371
Lease liabilities recognised as at 1 July 2019	**15,371**

Significant judgement – lease term

The lease term has been determined as the non-cancellable period of the lease, together with options to extend the lease if the lessee is reasonably certain to exercise that option. Judgement has been exercised, to determine the likelihood to exercise any rights of renewal, on a lease by lease basis. The average lease term is five years (2019: five years).

Lease liabilities

	2020 $'000	2019 $'000
Current lease liabilities	2,461	-
Non-current lease liabilities	15,275	-
Total lease liabilities	**17,736**	-

Maturity analysis – contractual undiscounted cash flows

	2020 $'000
Within one year	2,567
Greater than one year but not more than five years	7,637
Greater than five years but not more than ten years	5,034
Greater than ten years	11,437
Total undiscounted lease liabilities	**26,675**

	2020 $'000	2019 $'000
Amounts recognised in profit and loss		
Depreciation expense on right of use assets	1,838	-
Interest expense on lease liabilities	803	-
Expense relating to variable lease payments not included in the measurement of the lease liability	331	-

H2. NON-CURRENT ASSETS HELD FOR SALE

	2020 $'000	2019 $'000
Investment Properties – Land	-	56,000
Balance at 30 June	-	56,000

The Pikes Point property was deemed as held for sale in the prior year and was settled on 11 July 2019.

Recognition and measurement

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for investment properties which are measured at fair value.

H3. CAPITAL COMMITMENTS

	2020 $'000	2019 $'000
Property, plant and equipment	16,103	39,217
Intangible assets	36	190
Investment properties	1,162	1,221
Total capital commitments	**17,301**	40,628

Capital commitments include spend related to the capacity upgrade at the container terminal, and investment in our supply chain network.

H4. LEASE COMMITMENTS

	2020 $'000	2019 $'000
Operating lease commitments: Group as lessor		
Within one year	**7,640**	6,745
Greater than one year but not more than five years	**24,815**	23,443
More than five years	**38,704**	34,489
Total operating lease commitments	**71,159**	64,677

The lease commitments of the Group relate to investment property owned by the Group with lease terms between 1 to 11 years and buildings within port operation boundaries included in property, plant and equipment also owned by the Group with a lease term between 1 to 23 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.

Recognition and measurement

Lease commitments

Assets leased to third parties under operating leases are included in investment property and property, plant and equipment in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.

H5. CONTINGENCIES

Contingent liabilities

The Group had $nil contingent liabilities at 30 June 2020 (2019: $nil).

Ports of Auckland Limited has a performance bond of $810,000 (2019: $810,000) with Auckland Council to ensure that the final finishing of the reclamation of the Fergusson Container terminal is undertaken and that an accessible esplanade reserve is provided. Ports of Auckland Limited pays Westpac a premium to take on the bond risk. No event has occurred that would cause this guarantee to be called upon.

Ports of Auckland Limited potentially has a liability for repairs and maintenance on Queens Wharf of up to $1.5 million. The expense is likely to be incurred within a ten to fifteen year time horizon.

H6. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 17 August 2020, subsequent to year end the Board of Directors resolved to pay an unimputed dividend of 3.37 cents per ordinary share, a total of $4,914,000. The dividend will be paid on 30 September 2020.

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