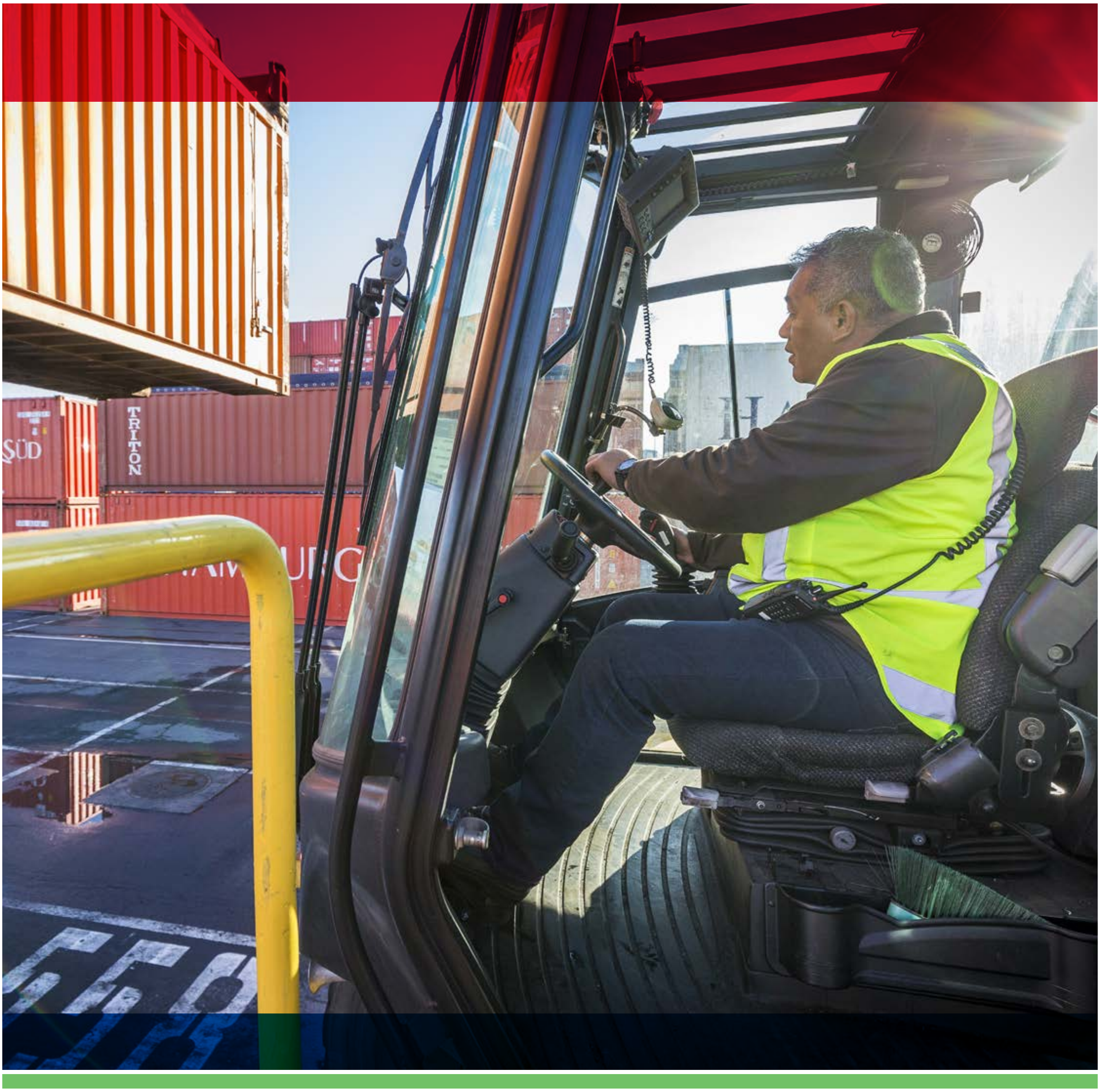
PORTS OF AUCKLAND
TĀMAKI HERENGA WAKA

Ports of Auckland
Summary Financials

30 June 2015



Contents

Independent auditor's report

To the Readers of Ports of Auckland Limited Group's Summary Financial Statements for the year ended 30 June 2015

Deloitte.

The summary financial statements were derived from the financial statements of Ports of Auckland Limited Group for the year ended 30 June 2015. We have considered whether the summary financial statements represent, fairly and consistently, the information regarding the major matters dealt with in the financial statements.

The financial statements included full audited statements, and the summary financial statements include summary statements. We have audited the following summary statements reported in the summary financial statements on pages 2 to 15:

- the summary statement of financial position as at 30 June 2015;
- the summaries of the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2015; and
- the notes to the summary financial statements that include accounting policies and other explanatory information.

We expressed an unmodified audit opinion on Ports of Auckland Limited Group's Financial Statements in our report dated 17 August 2015.

OPINION

In our opinion:

- the summary financial statements represent, fairly and consistently, the information regarding the major matters dealt with in the financial statements; and
- the summary statements comply with FRS-43: Summary Financial Statements.

BASIS OF OPINION

Our audit was conducted in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) and in particular with the International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements. These standards require us to carry out procedures to confirm whether the summary financial statements contain the information necessary, and at an appropriate level of aggregation, so as not to be misleading.

The summary financial statements do not contain all the disclosures required for full audited financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the full audited financial statements of Ports of Auckland Limited Group.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE AUDITOR

The Board of Directors is responsible for preparing the summary financial statements so that it represents, fairly and consistently, the information regarding the major matters dealt with in the financial statements. This includes preparing summary statements, in accordance with FRS-43: *Summary Financial Statements*. The Board of Directors is also responsible for the publication of the summary financial statements, whether in printed or electronic form.

We are responsible for expressing an opinion on whether the summary financial report represents, fairly and consistently, the information regarding the major matters dealt with in the financial statement and whether the summary statements comply with FRS 43: Summary Financial Statements.

Other than in our capacity as auditor, we have no relationship with, or interest in, Ports of Auckland Limited Group or any of its subsidiaries.

B Henderson

Bryce Henderson
Deloitte

On behalf of the Auditor-General
Auckland, New Zealand
17 August 2015

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the summary financial statements of Ports of Auckland Limited (the Company) and Group for the year ended 30 June 2015 included on Ports of Auckland Limited's website. The Company's Board of Directors is responsible for the maintenance and integrity of the Ports of Auckland Limited's website. We have not been engaged to report on the integrity of the Ports of Auckland Limited website. We accept no responsibility for any changes that may have occurred to the summary financial statements since they were initially presented on the website. The audit report refers only to the summary financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these summary 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 summary financial statements and related audit report dated 17 August 2015 to confirm the information included in the audited summary financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of summary financial statements may differ from legislation in other jurisdictions.

Summary income statement

for the year ended 30 June 2015

	Notes	Group 2015 $'000	2014 $'000
Revenue	1	**218,314**	221,195
Expenses			
Employee benefit expenses	2	**(61,156)**	(56,397)
Other operating expenses	2	**(71,329)**	(58,923)
Depreciation and amortisation		**(21,113)**	(23,782)
Finance costs		**(11,268)**	(11,658)
Total expenses		**(164,866)**	(150,760)
Trading profit before income tax		**53,448**	70,435
Reversal of previous impairment of assets	4	**15,075**	–
Fair value change to investment properties	6	**(457)**	4,085
Net gain/(loss) due to changes in investments		**891**	–
Share of profit from equity accounted investments		**2,001**	3,097
Profit before income tax		**70,958**	77,617
Income tax expense	3	**(7,770)**	(3,619)
Profit for the period		**63,188**	73,998

Summary statement of comprehensive income

for the year ended 30 June 2015

	Notes	Group 2015 $'000	2014 $'000
Profit for the period		**63,188**	73,998
Other comprehensive income			
Net change in fair value of land, buildings and wharves, net of tax		**22,683**	–
Cash flow hedges, net of tax		**(3,450)**	2,367
Net change in fair value of equity securities		**(1,397)**	2,137
Other comprehensive income net of income tax		**17,836**	4,504
Total comprehensive income for the period net of tax attributable to the owners of the Parent		**81,024**	78,502

The full financial statements for the year ended 30 June 2015 are available on request.

Summary statement of financial position

as at 30 June 2015

	Notes	Group 2015 $'000	2014 $'000
Current assets			
Cash and cash equivalents		**3,283**	367
Trade and other receivables		**22,763**	31,436
Inventories		**4,198**	3,878
Total current assets		**30,244**	35,681
Non-current assets			
Property, plant and equipment	4	**666,634**	617,343
Intangible assets		**17,200**	15,307
Investment properties	6	**103,011**	73,033
Equity securities		**23,424**	24,821
Investments and advances		**9,615**	9,192
Derivative financial instruments		**–**	965
Total non-current assets		**819,884**	740,661
Total assets		**850,128**	776,342
Current liabilities			
Interest bearing liabilities	7	**52,929**	4,472
Trade and other payables		**36,640**	24,936
Tax payable		**1,499**	3,273
Provisions		**9,352**	6,483
Derivative financial instruments		**532**	190
Deferred income		**23**	22
Total current liabilities		**100,975**	39,376
Non-current liabilities			
Interest bearing liabilities	7	**160,000**	182,384
Derivative financial instruments		**6,177**	2,694
Provisions		**1,351**	1,215
Deferred income		**645**	666
Deferred tax liabilities		**59,662**	56,580
Total non-current liabilities		**227,835**	243,539
Total liabilities		**328,810**	282,915
Net assets		**521,318**	493,427
Equity			
Share capital		**146,005**	146,005
Reserves		**111,549**	93,713
Retained earnings		**263,764**	253,709
Total equity		**521,318**	493,427

These financial statements were approved by the Board on 17 August 2015.

Signed on behalf of the Board by:

R. H. Fisher
Director

E. M. Coutts
Director

The full financial statements for the year ended 30 June 2015 are available on request.

Summary statement of changes in equity

for the year ended 30 June 2015

		Attributable to equity holders of the Group			
	Notes	Share capital $'000	Other reserves $'000	Retained earnings $'000	Total equity $'000
GROUP					
Balance at 1 July 2013		**146,005**	**89,209**	**220,901**	**456,115**
Profit for the period		–	–	73,998	73,998
Other comprehensive income		–	4,504	–	4,504
Total comprehensive income		–	4,504	73,998	78,502
Other movements					
Dividends paid		–	–	(51,001)	(51,001)
Other movements		–	–	9,811	9,811
Total other movements		–	–	(41,190)	(41,190)
Balance at 30 June 2014		**146,005**	**93,713**	**253,709**	**493,427**
Profit for the period		–	–	63,188	63,188
Other comprehensive income		–	17,836	–	17,836
Total comprehensive income		–	17,836	63,188	81,024
Other movements					
Dividends paid		–	–	(54,772)	(54,772)
Other movements		–	–	1,639	1,639
Total other movements		–	–	(53,133)	(53,133)
Balance at 30 June 2015		**146,005**	**111,549**	**263,764**	**521,318**

Other movements include tax loss benefits related to prior periods received from the shareholder for no consideration.

The full financial statements for the year ended 30 June 2015 are available on request.

Summary statement of cash flows

for the year ended 30 June 2015

	Notes	Group 2015 $'000	2014 $'000
Net cash flows from operating activities		84,176	93,797
Net cash flows from investing activities		(41,028)	(25,887)
Net cash flows from financing activities		(43,689)	(69,501)
Net cash flows		(541)	(1,591)
Cash at the begining of the year		(4,105)	(2,514)
Cash at the end of the year		(4,646)	(4,105)

The full financial statements for the year ended 30 June 2015 are available on request.

Notes to the financial statements

REPORTING ENTITY AND NATURE OF OPERATIONS

The summary financial statements presented are those of Ports of Auckland Limited and its subsidiaries, associates and joint ventures (the Group). Ports of Auckland Group is a designated profit oriented entity, for the year ended 30 June 2015.

BASIS OF PREPARATION

The summary financial statements were extracted from the full financial statements authorised for issue by Directors on 17 August 2015. An unmodified audit report was issued on 17 August 2015.

Restatements

Expenses have been showed by nature in the current year financials, rather than by function. This change has been made in order to provide users of the summary financial statements with a more comparable benchmark for measuring expenditure and improve the understandability of the financials overall. The restatement has impacted the cost of providing services of $98,570,000 and expenses of $40,532,000 combining a restatement of $139,102,000 to the comparatives for 30 June 2014.

The related party payables balance of $6,554,000 in 2014 has been reclassified from tax payable to related party payables to better reflect the nature of the transaction.

BASIS OF MEASUREMENT

The presentation currency is New Zealand dollars rounded to the nearest thousand dollars ($'000).

As the summary financial statements do not include all the disclosures that are in the full financial statements, they cannot be expected to provide a complete understanding as produced by the full financial statements.

These summary financial statements have been prepared in accordance with the Financial Reporting Standard No.43 'Summary Financial Statements'. The full financial statements have been prepared in accordance with Tier 1 For-profit Accounting Standards. They comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The full financial statements for the year ended 30 June 2015 are available on request.

1. REVENUE

	Group	
	2015 $'000	2014 $'000
Revenue		
Port operations income	213,717	216,126
Rental income	3,603	3,787
Gain on disposal of property, plant and equipment	12	86
Dividend income	949	867
Interest income	33	329
Total revenue	218,314	221,195

Recognition and measurement

Revenue
Revenue comprises the fair value for the sale of goods and services, excluding goods and services tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Port operations income
Port operations income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Dividend income
Dividend 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.

Notes to the financial statements (continued)

2. OPERATING EXPENSES

	Group 2015 $'000	2014 $'000
Employee benefit expenses		
Salaries and wages	**56,264**	53,829
Severance costs	**2,710**	491
Pension costs	**2,182**	2,077
Total employee benefit expenses	**61,156**	56,397
Other operating expenses		
Contracted services	**23,628**	20,806
Repairs and maintenance	**21,043**	17,726
Fuel and power	**5,581**	6,912
Loss on disposal of property, plant and equipment	**2,124**	919
Impairment of property, plant and equipment	**4,517**	-
Other expenses	**14,217**	12,343
Auditor's fees		
Audit fees	**219**	217
Total other operating expenses	**71,329**	58,923

Directors fees for the year are $460,000 (2014: $404,000) and are recognised under employee benefit expenses. Donation expenses are $52,000 (2014: $43,000) and are recognised under other expenses.

Following the High Court ruling revoking the resource consents for the Bledisloe wharf extensions $7,300,000 has been expensed relating to these extensions. Included in this $7,300,000 is a $4,517,000 impairment of property, plant and equipment.

Expense reclassification

Expenses have been shown by nature in the current year financials, rather than by function. This change has been made in order to provide users of the financial statements with a more comparable benchmark for measuring expenditure and improve the understandability of the financials overall. The restatement has impacted the cost of providing services of $98,570,000 and expenses of $40,532,000 combining a restatement of $139,102,000 to the comparatives for 30 June 2014. A reconciliation of expenses reclassified from the 2014 financial statements has been shown below.

Expense categories	2014 $'000
Cost of providing services	39,785
Administration	16,612
Employee benefit expense	**56,397**
Cost of providing services	12,678
Administration	8,128
Contracted services	**20,806**
Cost of providing services	17,695
Administration	22
Other	9
Repairs and maintenance	**17,726**
Cost of providing services	6,912
Fuel and power	**6,912**
Cost of providing services	1,111
Marketing	1,995
Occupancy	2,276
Administration	6,586
Other	1,294
Other expenses	**13,262**
Administration	217
Audit fees	**217**
Cost of providing services	20,389
Other	3,393
Depreciation and amortisation	**23,782**
Total expenses reclassified	**139,102**

Notes to the financial statements (continued)

30 June 2015

3. INCOME TAX

	Group 2015 $'000	2014 $'000
Income statement		
Current income tax		
Current year	20,590	23,806
Adjustment for prior years	252	(584)
Loss offset utilisation	(9,723)	(16,174)
Tax credit utilisation	(1,180)	(1,532)
Deferred income tax		
Temporary differences	(2,045)	(1,897)
Adjustment for prior years	(124)	-
Income tax expense	7,770	3,619
Statement of changes in equity		
Cash flow hedges and property, plant and equipment	3,982	921
Income tax reported in equity	3,982	921

Reconciliation of effective tax rate

	Group 2015 $'000	2014 $'000
Profit before income tax	70,958	77,617
Tax at 28%	19,868	21,733
Adjustments		
Non-taxable income	(4,515)	(1,144)
Non-deductible expenses	3,169	1,327
Adjustment for prior years	128	(584)
Loss offset utilisation	(9,723)	(16,174)
Tax credit utilisation	(1,180)	(1,532)
Sundry items	23	(7)
Income tax expense	7,770	3,619

The Company has utilised losses from the wider Auckland Council Group of $85,899,000 in the 2014 tax return (2014: $47,997,000 in the 2013 tax return). A subvention payment and loss offset election with Watercare Services Limited has resulted in $67,065,000 (2014: $42,560,000) losses being purchased from Watercare Services Limited.

The remaining tax loss benefits utilised are from Auckland Council Investments Limited and sub group entities, ATEED, Auckland Transport, Auckland Waterfront Agency Limited and Auckland Council. The form of settlement for these tax loss benefits has been completed with loss offset payments and a dividend in the current financial period.

Notes to the financial statements (continued)

30 June 2015

4. PROPERTY, PLANT AND EQUIPMENT

	Group						
	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Wharves $'000	Pavement $'000	Other $'000	Total $'000
Net book value at 1 July 2013	**234,178**	**29,266**	**73,302**	**218,394**	**62,110**	**9,174**	**626,424**
Movement							
Additions	–	671	14,939	2,626	1,656	1,788	21,680
Disposals	–	(573)	(346)	–	–	(1)	(920)
Reclassifications / Transfers	(8,054)	(26)	–	–	–	26	(8,054)
Depreciation charge	–	(4,034)	(11,298)	(3,272)	(1,346)	(1,837)	(21,787)
Movement to 30 June 2014	(8,054)	(3,962)	3,295	(646)	310	(24)	(9,081)
Balances							
Cost and/or fair value	226,124	29,807	190,474	221,554	72,742	41,039	781,740
Work in progress at cost	–	240	13,902	2,727	501	775	18,145
Accumulated depreciation	–	(4,743)	(127,779)	(6,533)	(10,823)	(32,664)	(182,542)
Net book value at 30 June 2014	**226,124**	**25,304**	**76,597**	**217,748**	**62,420**	**9,150**	**617,343**
Movement							
Additions	–	845	12,889	11,792	2,781	3,567	**31,874**
Acquisitions	–	–	17,714	–	–	212	**17,926**
Disposals	–	(115)	(721)	(1,812)	–	(101)	**(2,749)**
Impairment	–	–	–	(4,517)	–	–	**(4,517)**
Revaluations - Reserves	8,996	3,476	–	15,534	–	–	**28,006**
Revaluations - Income Statement	14,473	(257)	–	859	–	–	**15,075**
Reclassifications / Transfers	(16,808)	393	–	–	–	(393)	**(16,808)**
Depreciation charge	–	(666)	(12,052)	(3,317)	(1,412)	(2,069)	**(19,516)**
Movement to 30 June 2015	6,661	3,676	17,830	18,539	1,369	1,216	**49,291**
Balances							
Cost and/or fair value	232,785	28,988	233,656	225,483	74,461	36,496	**831,869**
Work in progress at cost	–	–	5,218	10,804	1,562	2,388	**19,972**
Accumulated depreciation	–	(8)	(144,447)	–	(12,234)	(28,518)	**(185,207)**
Net book value at 30 June 2015	**232,785**	**28,980**	**94,427**	**236,287**	**63,789**	**10,366**	**666,634**

Reclassifications/transfers of $16,808,000 represent a transfer from land to investment properties.

Impairment losses recognised in respect of property, plant and equipment during the financial year amounted to $4,517,000 (2014: $nil).

5. PROPERTY, PLANT AND EQUIPMENT VALUATION

Valuations of land, buildings and wharves

For the year ended 30 June 2015, all land, buildings and wharves were revalued in accordance with the New Zealand Institute of Valuers asset valuation standards. The valuation of land and non-operational buildings was undertaken by NAI Harcourt, registered valuers. The valuation of wharves and operational buildings was undertaken by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors.

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

The valuation approach is as follows:

Freehold land – Subdivisional approach – direct sales comparison with appropriate adjustments for intensity of development, location, titles, easements and services to provide a base rate.

Freehold buildings – Return on income and discounted cash flow on the market and contract rental checked by an assessment of the underlying land value.

Wharves – Depreciated Replacement Cost derived from modern equivalent asset rate.

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

During the financial year there was a transfer within Level 3 fair value hierarchy between property, plant and equipment and investment property of $16,808,000 with operational property reclassified as investment property.

Notes to the financial statements (continued)

30 June 2015

5. PROPERTY, PLANT AND EQUIPMENT VALUATION (continued)

Land valuation

Land was revalued at 30 June 2015 in accordance with the New Zealand Institute of Valuers asset valuation standards. The valuation was undertaken by NAI Harcourts Valuations, registered valuers, as at 30 June 2015 to fair value.

The valuations for land have been prepared using either market based evidence for the land or the investment approach relating to investment yield for leasehold properties.

This valuation methodology has been undertaken in order to provide an independent assessment of the current value of the assets. The valuation methodology is consistent with prior years.

A peer review was undertaken on the methodology used in the current year.

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

Asset classification and description	Valuation approach	Key valuation assumptions
Port Operations Land	A market land value model has been used which involves a sub-divisional approach whereby a direct sales comparison is made with appropriate adjustments for intensity of development, location, titles, easements and services to provide a base rate. This base rate is calculated to be $4,000 m^2 and is applied to the land based on the assumption that if this land were available for development then a higher density, than current zoning allows, would be achieved. The land is hypothetically subdivided less the costs of sales, development, opportunity costs and profit.	Analysis of sales data of vacant sites in the area ranged from $1,573 per m^2 to $12,935 per m^2. After allowing for subdivision costs, development costs and a profit allowance the average land value rate equated to $386.89 per m^2. The land has been broken into a number of subdivision allotments which would be released to the market over a lengthy period. The site development costs have been estimated based on work undertaken by a quantity surveyor. The discount rate for the DCF model is within the expected range for this type of development. It is assumed that for such a sub-division a zoning change will be in place to allow a higher density development. A significant portion of land has been designated, in line with market data from the Wynyard Quarter and Viaduct Harbour developments, to form reserves, esplanades and public open spaces which is therefore not available for commercial development.
Land and buildings associated with non-Port Operations	These buildings are leased to third parties and are valued on the basis of a return on income and discounted cash flow using the contract rental. This is then assessed against the underlying land value.	No revenue growth for the first 12 months increasing to 3.00% in 2018 reducing to 2.00% towards the end of the 10 year discounting period. Operating expenses increased 1.50% per annum for the 1st 12 months increasing to 2.00% towards the end of the 10 year discounting period. Discount rate ranging from 6.25% to 9.25% depending on the building with terminal capitalisation rate of 7.25% to 10.25%. An underlying land value ranging from $2,150 per m^2 to $3,250 per m^2 was applied as a check depending on height allowances.

The key assumptions driving the valuation relate to market conditions pertaining to the land. For the Quay Street operational land, there are a number of assumptions that influence the value. These assumptions are not independent and act in unison so changing any single assumption will not necessarily provide a level of sensitivity that would be meaningful.

Port Operations wharves and buildings valuation

Port Operations wharves and buildings were revalued at 30 June 2015 in accordance with the New Zealand Institute of Valuers asset valuation standards. The valuation was undertaken by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors, as at 30 June 2015 to fair value.

The valuers consideration has been given at the best method of assessing the current value of the Ports Operations assets being valued – market value or depreciable replacement cost – depending on the asset being valued.

The Fair Value in-situ for the wharves, buildings, structures, civil works and support assets have been undertaken using the Depreciated Replacement Cost (DRC) methodology. The calculation of Fair Value in-situ has been prepared using straight line depreciation.

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

Notes to the financial statements (continued)

30 June 2015 ———

5. PROPERTY, PLANT AND EQUIPMENT VALUATION (continued)

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). There are various factors and assumptions made in the preparing the Gross Current Replacement Costs, these are set out as follows:

a. the gross current replacement costs are based on the replacement of the whole of each process unit or installation at one time
b. assume the projects are carried out as an Engineering Procurement Construction contract under the auspices of a "main Contractor", duly appointed after competitive bidding/tender submission
c. the project specification and documentation is prepared by Ports of Auckland staff and/or its appointed consultant advisors
d. used straight-line depreciation methodology for the valuation of wharves, buildings, structures, civil works and support assets. This depreciation methodology is one of the methodologies recommended by the professional body The Royal Institution of Chartered Surveyors, London, to reflect the value of specialised assets.

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

Asset classification and description	Valuation approach	Key valuation assumptions
Port operations wharves and buildings	Depreciated replacement cost derived from modern equivalent asset rate.	Modern equivalent asset rates ranging from $850-$4800 per m^2, with a weighted average of $2,516 per m^2.

The key assumptions driving the valuation of the wharves are influenced by costs for construction materials, labour costs and general construction market trends. If these assumptions increase by 10 per cent, this would result in the carrying value of the revalued assets increasing to $248,031,000. If the assumptions decreased by 10 per cent the carrying value would decrease to $202,935,000.

6. INVESTMENT PROPERTIES

	Group 2015 $'000	2014 $'000
At fair value		
Balance at 1 July	**73,033**	60,895
Capitalised subsequent expenditure	**13,627**	–
Net gain/(loss) from fair value adjustment	**(457)**	4,085
Transfer from property, plant and equipment	**16,808**	8,053
Balance at 30 June	**103,011**	73,033

Other changes of $16,808,000 represent a transfer from land to investment properties. As at year end, a land premise has been reclassified due to change in use. Accordingly, the amount has been reclassified from land to investment properties.

The Group's investment property are all categorised as Level 3 in the fair value hierarchy.

During the financial year there was a transfer within Level 3 fair value hierarchy between property, plant and equipment and investment property.

Recognition and measurement

Investment property
Investment property includes properties which are not rented or intended for port operation purposes and are rented 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 property is 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 investment property when there is a change in use. This 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.

If the fair value of investment property under construction cannot be reliably determined but it is expected the fair value of the property can be reliably determined on construction completion, the investment property will be measured at cost until a fair value can be reliably determined or construction completion.

Valuation basis
The Group's accounting policy is for investment property to be measured at fair value, which reflects market conditions at the statement of financial position date. To determine fair value, the Group obtain investment property valuations annually by an independent registered valuer.

The valuations as at 30 June 2015 and 30 June 2014 were performed by Seagar & Partners (Auckland) Limited. The valuers are registered valuers and have experience in the location and category of the investment properties being valued.

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.

Notes to the financial statements (continued)

30 June 2015

6. INVESTMENT PROPERTIES (continued)

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

The basis of 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 discount cash flow approach.

A market capitalisation rate of 4.13% to 7.00% (2014: 5.56% to 6.00%) along with a medium term growth rate of 7.00% (2014: 7.00%) has been applied, with the exception of waterspace licences for which a market capitalisation rate of 8.00% (2014: 8.00%) along with a medium term growth rate of 7.00% (2014: 7.00%) has been applied.

7. INTEREST BEARING LIABILITIES

	Group					
	2015			2014		
	Available $'000	Drawn $'000	Undrawn $'000	Available $'000	Drawn $'000	Undrawn $'000
Current						
Unsecured						
Bank overdraft	10,000	7,929	2,071	10,000	4,472	5,528
Other bank loans	45,000	45,000	–	–	–	–
Total current interest bearing liabilities	55,000	52,929	2,071	10,000	4,472	5,528
Non-Current						
Unsecured						
Other bank loans	195,000	160,000	35,000	240,000	182,384	57,616
Total non-current interest bearing liabilities	195,000	160,000	35,000	240,000	182,384	57,616
Total interest bearing liabilities	250,000	212,929	37,071	250,000	186,856	63,144

Recognition and measurement

Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Interest bearing liabilities 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.

Interest bearing liabilities 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of a financial liability or, where appropriate, a shorter period to net carrying amount of the financial liability.

Non-current interest bearing borrowings

A revolving advances facility agreement was signed on 29 October 2013. Bilateral revolving advance facility agreements were signed with Westpac New Zealand Limited, ANZ Bank New Zealand Limited, Commonwealth Bank of Australia and Bank of Tokyo Mitsubishi UFJ, Ltd. The duration period of the revolving advances facility varies from two to five years duration.

At 30 June 2015 and 30 June 2014, the Group had in place a revolving advances facility, that 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 and 24 November 2009). This is for the benefit of Westpac New Zealand Limited, ANZ Bank New Zealand Limited, Commonwealth Bank of Australia and Bank of Tokyo Mitsubishi UFJ, Ltd and Bank of New Zealand.

The current and non-current borrowings are unsecured. The Company borrows under a negative pledge arrangement which requires certain certificates and covenants. The negative pledge deed sets out a minimum interest cover requirements (1.50:1.00) and a maximum gearing ratio percentage requirement (65%). There have been no breaches of this negative pledge during the financial year.

Fair value

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. The interest rate is based on BKBM (bank bill bid settlement) rate plus a margin range of 0.55% to 1.15% per annum (2014: 0.55% to 1.15% per annum). The Company generally borrows funds on a 90 days term (2014: 90 days term).

The carrying amounts of the current and non-current liabilities approximate their fair values as all debt amounts are based on either floating interest rates or short term (90 days or less) fixed rates.

Notes to the financial statements (continued)

30 June 2015

8. RELATED PARTIES

Related party outstanding balances

	Group 2015 $'000	2014 $'000
Current receivables		
Auckland Council Group	24	34
Associates and joint ventures	1,103	1,219
Total current receivables	1,127	1,253
Non-current receivables		
Associates and joint ventures	3,437	5,063
Total non-current receivables	3,437	5,063
Current payables		
Auckland Council Group	8,127	6,670
Associates and joint ventures	88	–
Total current payables	8,215	6,670

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Related party transactions

	2015 $'000	2014 $'000
Auckland Council Group		
Services provided by Ports of Auckland Ltd	325	270
Services provided to Ports of Auckland Ltd	1,960	1,862
Net dividend paid to ACIL	54,772	51,001
Payment to ACIL for tax losses	–	2,564
Subvention payment to Watercare Services Ltd for tax losses	8,450	5,363
Associates and joint ventures		
Services provided by Ports of Auckland Ltd	2,618	642
Services provided to Ports of Auckland Ltd	438	272
Net dividends received	2,085	2,982
Advances	1,509	1,400
Advance repayments	3,863	250
Subsidiaries		
Services provided by Ports of Auckland Ltd	604	1,034
Services provided to Ports of Auckland Ltd	95	230
Advances	15,080	–
Payment to Conlinxx Ltd for tax losses	–	394

Key management personnel compensation

	Group 2015 $'000	2014 $'000
Directors' fees	460	404
Salaries and other short term employee benefits	3,252	2,574
Termination costs	–	–
Total key management compensation	3,712	2,978

Recognition and measurement

Related parties

All subsidiaries, associates and joint ventures are related parties to the Group. Auckland Council Investments Limited (ACIL) wholly owns Port of Auckland Limited, with the ultimate controlling party being Auckland Council. All council controlled organisations (CCOs) of Auckland Council are considered related parties to the Group.

Associates and joint ventures

The interests in North Tugz Limited, PortConnect Limited, Longburn Intermodal Freight Hub Limited and Nexus Logistics Limited are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Group entity.

Notes to the financial statements (continued)

30 June 2015 ———

8. RELATED PARTIES (continued)

Seafuels Limited is accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Group entity up until acquisition date.

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

Related Party Transactions

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

Auckland Council Group

Auckland Council Group entities include: Auckland Council Investments Limited, Auckland Council, Watercare Services Limited, Auckland Waterfront Development, Auckland Transport and Auckland Tourism Events and Economic Development Group.

The services provided to Ports of Auckland from Auckland Council Group entities is made up of operating costs such as water and rates charged. The services provided by Ports of Auckland to Auckland Council Group entities include management fees and port charges.

Associates and joint ventures

The services provided to Ports of Auckland from associates and joint ventures are made up of port operating costs. The services provided by Ports of Auckland to associates and joint ventures include management fees and port charges.

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

Ports of Auckland has advanced funds to PortConnect Limited, Seafuels Limited, Longburn Intermodal Freight Hub Limited and Nexus Logistics Limited.

In the prior year Ports of Auckland guaranteed 50% of Seafuels Limited's Bank of New Zealand cash advances facility. However due to Ports of Auckland's acquisition of the remaining 50% of Seafuels Limited, in the current year, the guarantee is no longer required. The maximum credit risk in relation to this guarantee in the prior year was $4,750,000. At the end of the prior financial year the share of the amount drawn down was $4,175,000.

Subsidiaries

The services provided to Ports of Auckland from subsidiaries are made up of port operating costs. The services provided by Ports of Auckland to subsidiaries include port charges.

Ports of Auckland Limited has advanced funds to Seafuels Limited during the financial year.

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 does not provide any non-cash benefits to directors and other key management personnel in addition to their directors' fees or salaries.

Notes to the financial statements (continued)

30 June 2015

9. COMMITMENTS

	Group 2015 $'000	2014 $'000
Operating lease commitments: Group as lessee (i)		
Within one year	646	317
Greater than one year but not more than five years	2,322	–
Total operating lease commitments	2,968	317
Operating lease commitments: Group as lessor (ii)		
Within one year	8,303	6,300
Greater than one year but not more than five years	19,547	13,393
More than five years	45,868	19,116
Total operating lease commitments	73,718	38,809

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

(ii) The majority of operating leases relate to investment property owned by the Group with lease terms between 2 to 17 years. Further operating leases relating to buildings within port operation boundaries included in property, plant and equipment also owned by the Group with a lease term between 1 to 26 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

Commitments

(i) The Group is the lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight line basis over the period of the lease.

(ii) The Group is the lessor
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.

10. CONTINGENCIES

Contingent liabilities

The Group had $nil contingent liabilities at 30 June 2015 (2014: $nil).

Ports of Auckland Limited has a performance bond 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.

11. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 29 July 2015, a new revolving advances facility commenced. Bilateral agreements were signed with Westpac New Zealand Limited, ANZ Bank New Zealand Limited, Commonwealth Bank of Australia and Bank of Tokyo Mitsubishi UFJ, Ltd. The duration period of the revolving advances facility varies from two to five years.

On 17 August 2015, subsequent to year end the Board of Directors resolved to pay an unimputed dividend of 11.13 cents per ordinary share, a total of $16,259,000. The dividend will be paid on 28 August 2015.