PORTS OF AUCKLAND

TĀMAKI HERENGA WAKA

Annual Report 2018

Working around the clock to deliver for New Zealand

Ports of Auckland works hard bringing in goods that support Auckland's growth and way of life.

We serve New Zealand's national freight needs, working in collaboration with other regional ports, inland hubs and KiwiRail to move goods efficiently and sustainably.

We aspire to be a world-class port company, known for our innovation and sustainable practices, and we operate openly and responsibly with our skilled people and stakeholders.

This year's Annual Report takes you behind the scenes to see how we continue to meet the needs of Auckland and New Zealand, today and tomorrow.

Contents

While you were having breakfast…

We were working hard to deliver the goods needed to support the lifestyles of a growing Auckland

6.30am

The Melina Majuro is berthed by the tugboat Hauraki at Fergusson Container Terminal. Our twin-lift-capable cranes and straddles provide greater efficiency in cargo handling

7am

And our new crane hatch platforms create more working space, helping us to do more within the same footprint

7.30am

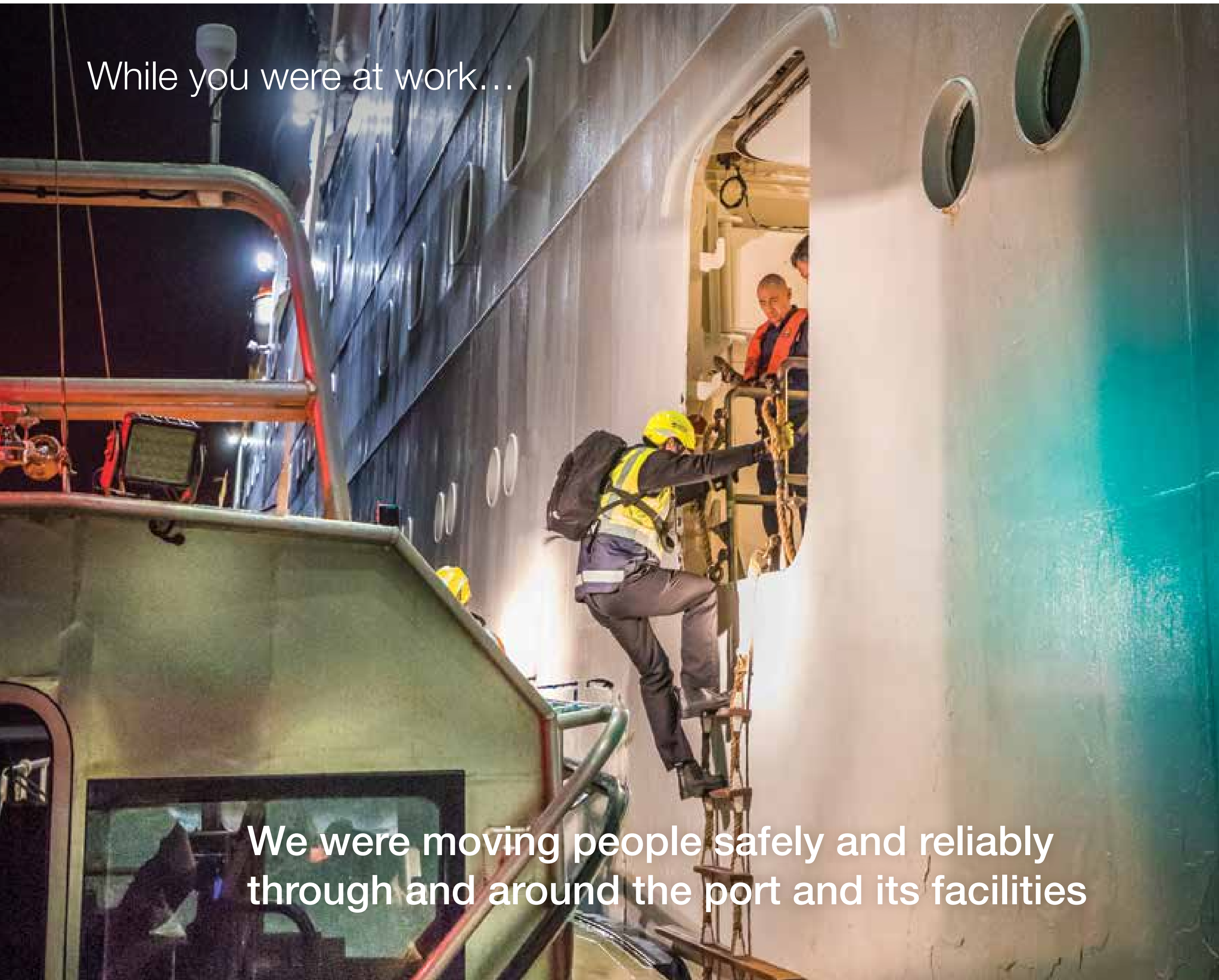
In preparation for launch in 2019, our new automated straddles are being thoroughly tested

8am

Our world-class vehicle booking system makes sure trucks arrive at the port at the right time to allow maximum throughput

8.30am

Containers are loaded onto trucks and trains to be delivered around Auckland



While you were at work…

We were moving people safely and reliably through and around the port and its facilities

7am

Our Pilot boards the Pacific Jewel and guides the cruise ship safely into port, where passengers will visit and enjoy Auckland's sights, cafés, restaurants, bars and shops

5pm

Refuelled and resupplied, the Pacific Jewel departs for an island cruise, supporting our Pacific neighbours' tourism industries

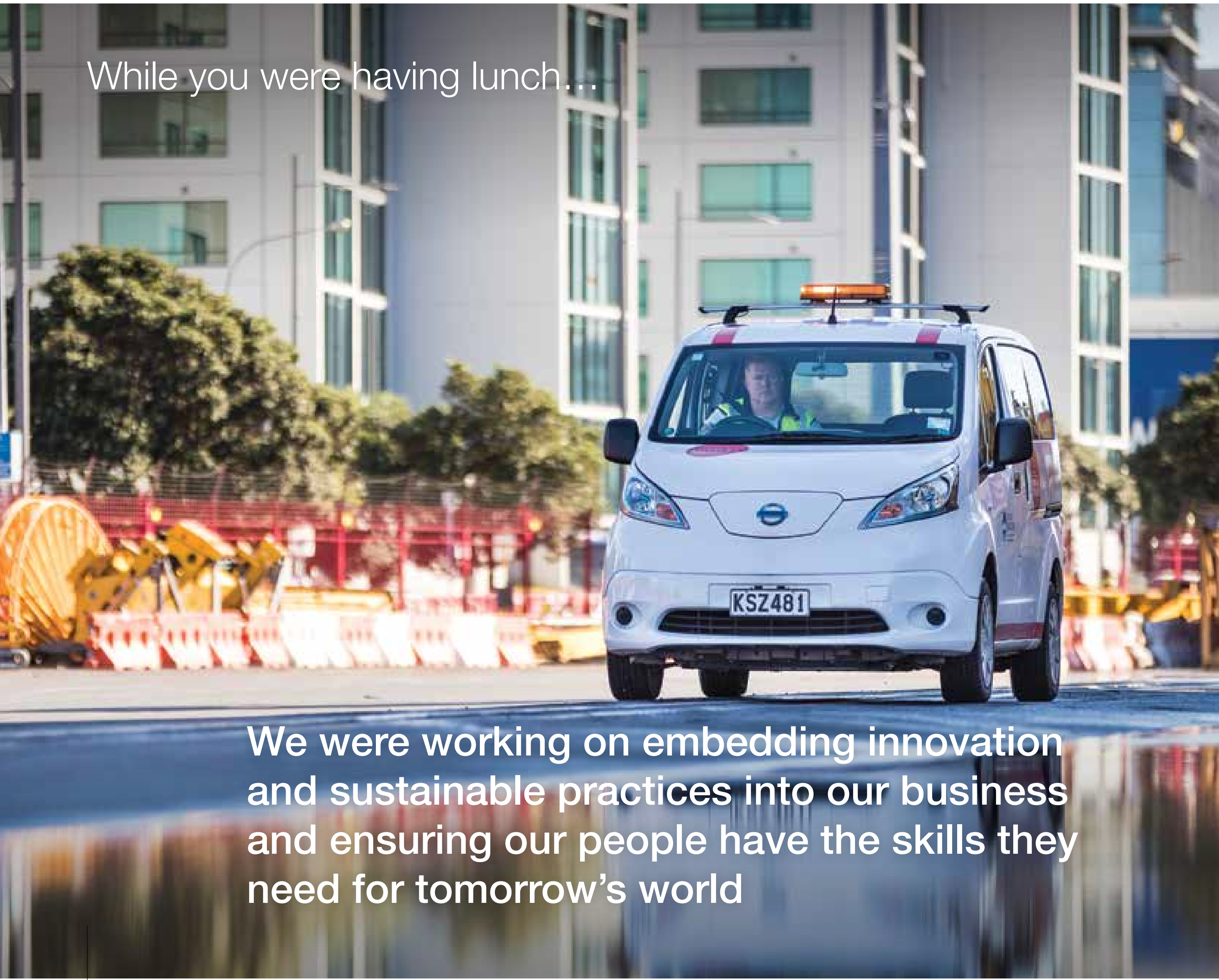
11am

On Captain Cook Wharf, port staff are underway with planning for next year's SeePort, our open port festival that is expecting in excess of 70,000 visitors to explore the port from land, sea and sky

12pm

A port-sponsored school tour leaves the ferry terminal to view the port's activities up close, while teaching local kids about the port's role in Auckland's development and community

While you were having lunch...



We were working on embedding innovation and sustainable practices into our business and ensuring our people have the skills they need for tomorrow's world

11am

We are introducing electric vehicles as part of our plan to be zero-emissions by 2040. We are handling an increasing number of electric cars through the port

12pm

Within an average of 2.9 days, cars are loaded onto trucks and delivered to car yards and showrooms across the Auckland region

1pm

Our Future of Work installation brings our history and future to life, informing and teaching our staff how work will change in the future

1pm

We understand that our automation project will result in some jobs being lost, while also creating some new, specialised skilled roles. We are training our staff to ensure they have the skills they need for future roles both inside and outside the port

1.30pm

Alexander Blom is retraining as a truck driver after 17 years as a stevedore, providing him with strong future opportunities and helping to address driver shortages

While you were sleeping…

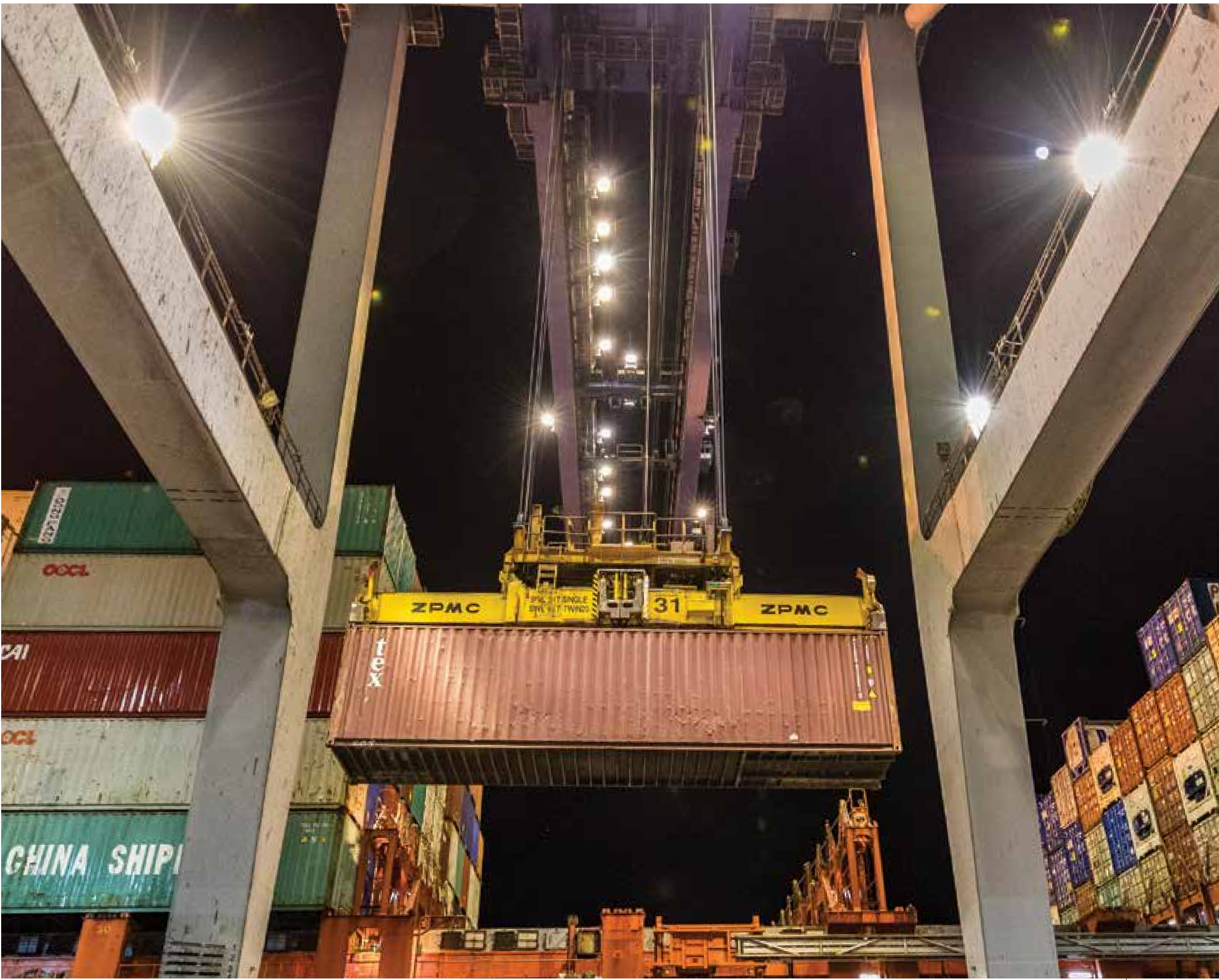
Our regional supply chain network was supporting local exporters and importers to get their products to market

1am

More than 7,000 containers are transferred by rail every month to our growing inland freight hub network. At our Wiri freight hub they are consolidated and prepared for distribution

2am

The cargo is railed across our inland freight hubs and dispatched to local businesses, supporting regional New Zealand importers and exporters



3am

A CONLINXX truck brings export containers into Wiri, supporting local exporters with efficient supply chain options to reach global markets

4am

Export containers are transferred by rail to the Waitematā port, where they are shipped around the world

Key **highlights**

$76.8m

net profit after tax

▲ 27%

North Island supply chain network developed to support future growth

5

Lost time injuries (LTIs), stable on last year

$51.1m

Dividend paid to Auckland Council

On track to become New Zealand's first automated container terminal

Container volumes up 2.2% to 973,722 TEU (standard 20-foot containers)

$243.2m

Revenue

▲ 9%

30-year master plan endorsed by Auckland Council

72,000

Aucklanders visited the port during our annual SeePort event

Car and light commercial vehicle volumes up 0.1% to 297,678 units

No 1

Voted Best Seaport in Oceania by our customers for the third year

1,492

Total ship calls

ABOUT THIS REPORT

Welcome to Ports of Auckland's 2018 Annual Report.

OUR APPROACH TO REPORTING – BUILDING AN INTEGRATED THINKING CULTURE

At Ports of Auckland, we work hard to supply the goods a growing Auckland needs as well as serving regional New Zealand. Our aspiration is to be a world-class port company known for our skilled people, innovation and sustainable practices.

This year we continue on our integrated reporting journey. This report highlights the importance we place on the views of our key stakeholders: our employees, our customers, our shareholder and our community.

Our report continues to be developed towards the International <IR> Framework of the International Integrated Reporting Council (IIRC). It extends beyond financial reporting to include our social and environmental performance and reflect our integrated thinking. We also considered the Global Reporting Initiative (GRI) standard and approach to materiality, alongside the <IR> Framework.

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

SCOPE AND BOUNDARY

Our Auunal Reports are produced and published annually, and this document covers the period 1 July 2017 to 30 June 2018. The scope of our report includes all core activities of our business, located primarily in the Auckland region, and related performance against our targeted outcomes. This year we have focused on materiality to progress our integrated reporting aspirations, as detailed on page 18. Through this process and engaging with our key stakeholders, we better understand the material topics that are important to our wide range of stakeholders. 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.

ASSURANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP).

The financial statements are included on pages 48-90. Our financial statements have been audited by Deloitte Limited, who have been appointed by the Auditor-General, and its auditor's report can be found on page 46.

BOARD APPROVAL

In the Board's opinion, Ports of Auckland's 2018 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 annual financial statements for the year ended 30 June 2018, was approved by the Board of Directors on 24 September 2018, and signed on its behalf by:

EM Coutts

Liz Coutts Chair
24 September 2018

SHaydon

Sarah Haydon Director
24 September 2018

Chair's statement

In last year's report I talked about our strategic shift to become a more sustainable operation. This is essential to our future success. We aspire to be a leading, sustainable port at a global level, woven into the fabric of Auckland, driving the city's sustainable growth to improve the environment for future generations.

Key to our approach is to improving how we work with the community. Businesses – even lifeline utilities like ports – can't take their positions in the community for granted. We have to earn our place in the city, something we haven't always done well in the past, so I'm pleased to report we're making progress on this front.

In November 2017 we released our 30-year master plan for public comment. This is the first time we've developed such a detailed plan and included all of the projects – large and small – that we will need in the next 30 years if we are to keep up with Auckland's growing freight demand. Providing this level of detail is in line with our commitment to be more open and transparent.

The master plan was developed in response to community concerns about ongoing port expansion into the Waitematā Harbour and included a commitment to end reclamation once the Fergusson Container Terminal expansion project is complete. The starting point for the plan was the 2016 Port Future Study, a stakeholder-led study initiated by Auckland Council. The study concluded that while our Waitematā port may one day move, it would take decades and additional infrastructure would be needed in the meantime to cater for forecast growth.

We supplemented the output of that study with surveys, focus groups, direct feedback from Aucklanders and discussions with stakeholders. We talked to shipping lines about future trade needs and the exact size and shape of the ships they expected to call at Auckland in future. And we worked closely with Auckland Council officials to ensure our plans integrate with the council plan for the wider waterfront and downtown area.

All of this helped us to design a plan to build the least amount of infrastructure for the greatest effect, an innovative plan that caters for Auckland's future social, environmental and economic needs.

The plan's release was widely promoted and covered in the media to raise awareness and seek feedback. A dedicated website (www.masterplan.poal.co.nz) was produced, giving detailed information about all the projects and a way for people to tell us what they thought. The website will be maintained during the life of the plan, so people can keep track of progress and give feedback on individual projects as and when they happen.

The feedback we received on the plan was mostly positive and constructive. We think this is because we listened to people's concerns, adapted our plans to accommodate community aspirations, and changed the way we communicate. It also contributed to the development of our material topics discussed in this report.

In May this year, Auckland Council endorsed the master plan and we are now starting to implement it. The importance of this can't be understated. Since 2011 there has been significant uncertainty about the port's place in Auckland, which has undermined our ability to meet future freight demand. That uncertainty has now gone, and we have a mandate for the next 30 years.

We will seek consent for several new master plan projects this year.

SERVING NEW ZEALAND'S NATIONAL AND REGIONAL FREIGHT NEEDS

As an island nation we are more reliant than most on shipping. Internationally, shipping has been dubbed 'the invisible industry that brings you 90% of everything'. In New Zealand 99.7% of all imports and exports travel by sea, so without shipping we would have a much lower standard of living. That is why it is so important that our Waitematā port, our inland hubs and the supply chain that connects them to our growing population are as efficient as possible.

Looking at the trading environment ahead, the risks are similar to those outlined in the previous year. Container shipping lines continue to consolidate, with the top 10 lines globally now accounting for 80% of all container traffic. In New Zealand, the largest line has captured around 50% of the market and the number of container lines calling at Ports of Auckland is down to eight as a result of mergers and acquisitions. We face relentless pressure to increase efficiency and cut costs.

Businesses – even lifeline utilities like ports – can't take their positions in the community for granted. We have to earn our place in the city.

Our strategy is to build a New Zealand-wide supply chain network connecting our regions with international markets. This year we completed earthworks at our Waikato Freight Hub and secured the first major tenant. We are currently building its new premises along with connecting road and rail infrastructure and expect to have the hub operational midway through 2019.

We are also mindful of the potential threat to the global economy of the rise of protectionism and a possible trade war, which could cause a global economic slowdown that would probably affect New Zealand and reduce global shipping volumes. This risk has been on our radar for some time and the company is in a good position to weather such an event.

SUSTAINABLE BUSINESS PRACTICES

Another key part of our path to a sustainable future is our goal to become a zero-emission port by 2040. This is a bold goal, and we don't underestimate the challenges we face in meeting it; there is currently no battery-power option for our tugs and 60-tonne container-lifting machines.

Setting our target has been an important step. It has sparked conversations with manufacturers and is acting as a catalyst for innovation and new thinking for the industry. We are confident that our own innovators, in partnership with suppliers and global technology leaders, can achieve this goal.

We have prepared an emissions inventory under the Certified Emissions Measurement and Reduction Scheme (CEMARS®) and become the first CEMARS certified port in New Zealand. We know the scale of our emissions and we have a plan to manage and reduce them. In July 2018 we made a commitment to set science-based targets for emission reduction, as part of the Science Based Targets initiative (SBTi). Targets adopted by companies to reduce greenhouse gas emissions are considered 'science-based' if they are in line with the level of decarbonisation required to keep the global temperature increase below 2 degrees Celsius, as set out in the 2015 Paris Agreement. We were the first port in the world to make this commitment.

At our Waitematā port, we are making good progress on work to partially automate our container terminal, a New Zealand first. When it goes live in late 2019, automation will give us a significant capacity and productivity boost, helping us meet our sustainability goals, but it will also mean the loss of around 50 straddle-driving roles. We feel we have a social responsibility to look after people impacted by automation, and we have put in place a comprehensive 'Future of Work' programme of education and retraining to help our people and their families through these changes and prepare for the radically different world of the future.

OWNERSHIP CHANGE

On 2 July 2018 Auckland Council completed a reorganisation of the ownership of Ports of Auckland. Previously, 100% of Ports of Auckland shares were held by Auckland Council Investments Limited (ACIL), a council-controlled organisation (CCO). Following a review of its CCO structure, Auckland Council decided to transfer ownership of Ports of Auckland from ACIL and take direct ownership of Ports of Auckland. This change of ownership is not expected to have any impact on day-to-day operation of the port.

A STRONG RESULT

The company has delivered another good result this year, with revenue and profit both up. It is very pleasing that the company has been able to achieve this while in the midst of a major capital investment programme. This is a credit to the staff and management, and the Board would like to thank them all for their efforts this year.

EM Coutts

Liz Coutts Chair

How we **create value** for all stakeholders

Using our resources and relationships

Our people

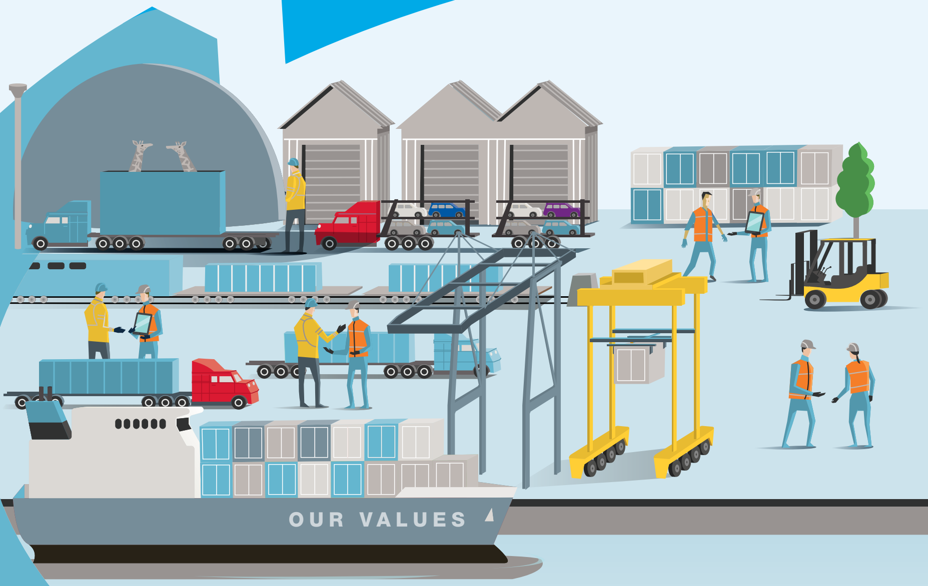
Our assets and technologies

Our community and business relationships

Our financial capital

Our knowledge and capabilities

Our land and natural environment



WE WORK TOGETHER / WE RESPECT AND CARE FOR EACH OTHER

WE DELIVER RESULTS / WE DO WHAT WE SAY

WE DO THINGS BETTER

We move freight

Container handling: nearly 1 million TEU (standard 20 foot containers) a year for importers and exporters

Multi-cargo handling: half a million tonnes of cement, nearly 300,000 cars and more, to cater for Auckland's growth

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

We move people

Cruise ship support: supporting more than 100 cruise ships and nearly 300,000 passengers into Auckland every year

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 inland hubs and partner ports

We do things in an innovative and sustainable way

Providing value to our stakeholders by:

Delivering Aucklanders goods to support our growth and way of life

Serving New Zealand's national freight needs in the most efficient and sustainable way

Striving to be a world-class port company known for our skilled people, innovation and sustainable practices

Understanding our **material topics**

The process we followed

OUR MATERIALITY ASSESSMENT – UNDERSTANDING OUR RISKS AND OPPORTUNITIES

This year we have taken a further step on our integrated reporting journey by engaging with our stakeholders to help us better understand our broader risks and opportunities. This process was carried out in line with the principles of the International IR Council's Integrated Reporting '<IR>' framework and the Global Reporting Initiative standards.

The materiality assessment included following the important steps on the right.

DESIGNING A RESPONSIVE STRATEGY AND COMMUNICATIONS PLAN

The materiality assessment resulted in specific actions, which have been included in our business plan. This was part of our communication activities. As outlined in the Chair's statement we have taken extensive steps to engage more openly and transparently with our stakeholders, including the community. We are committed to ensuring that this continues.

RISK MANAGEMENT

The materiality assessment has added value to our risk management framework by enabling our managers to better understand stakeholder expectations and how the business affects them.

Our risk management framework encourages us to pursue business opportunities and grow shareholder value as well as developing and protecting our people, assets, the

MATERIALITY ASSESSMENT STEPS

1 Purpose and scope of assessment

The purpose of our materiality assessment – to identify the topics that are most important to our stakeholders and affect our ability to create value

↓

2 Identify and categorise potential material topics

Our first step was to consider a provisional list of material topics to discuss with our stakeholders. These were taken from the following points of reference:

- Knowledge of our current business environment
- Existing topics of interest for our stakeholders
- Other ports' material topics (locally and internationally)
- Our Executive team and employees

↓

3 Identify our key stakeholders

We identified which stakeholder groups to participate in the process and which method to use to best understand their views: online survey, focus group or interview

↓

4 Conduct stakeholder surveys, focus groups and interviews

We engaged with more than 400 stakeholders and they informed us on how important the material topics were to them

↓

5 Prioritise material topics

Executive management reviewed the stakeholder feedback and determined the stakeholder weightings. The Executive also rated the material topics on their importance to Ports of Auckland. The material topics heat-map was plotted

↓

6 Integrate into strategy and stakeholder feedback process

Each material topic was linked to the Ports of Auckland outcomes and strategic pillars. The topics are captured within our strategic and business plans, which are then approved by the Board to ensure that they are integrated with our business's operations.

This provides an opportunity to continuously engage with our stakeholders in the coming year. We look forward to continuing this journey with our stakeholders 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 continuously identify, assess, mitigate and monitor risks, and record this 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 81.

OUR STAKEHOLDERS

We are focused on delivering value to all our stakeholders. Understanding our stakeholders' issues and opportunities is critical to having a responsible operation. This section shows the link between the material topics and our business operations.

We have numerous stakeholders that we interact with daily. The materiality project broadly classified our stakeholders into categories with common material topics:

STAKEHOLDER CATEGORY	STAKEHOLDER PROFILE	MATERIAL TOPICS
Community	Local residents and other community stakeholders, iwi, port opponents, environmental groups	1. Protection of the natural environment 2. Modal shift in transport
Auckland Council Central government	Auckland councillors Local Members of Parliament	1. Economic viability of the port 2. Protection of the natural environment 3. Safety and wellbeing
Supply chain partners	Trucking companies, rail operator, freight forwarders	1. Safety and wellbeing 2. Changing supply chain structures and customer relationships 3. Protection of the natural environment
Customers Cargo owners	Container shipping lines, car carrier operators, Pacific Islands cargo shippers Car importers, bulk importers, container importers, major exporters	1. Productivity, efficiency and capacity 2. Changing supply chain structures and customer relationships 3. Protection of the natural environment 4. Safety and wellbeing 5. Modal shift in transport
Suppliers	Construction companies, independent stevedoring operators	1. Protection of the natural environment 2. Changing supply chain structures and customer relationships 3. Safety and wellbeing 4. Modal shift in transport
Employees Unions	Our employees from various departments, Executive team	1. Safety and wellbeing 2. Employee engagement 3. Changing supply chain structures and customer relationships

Material topics

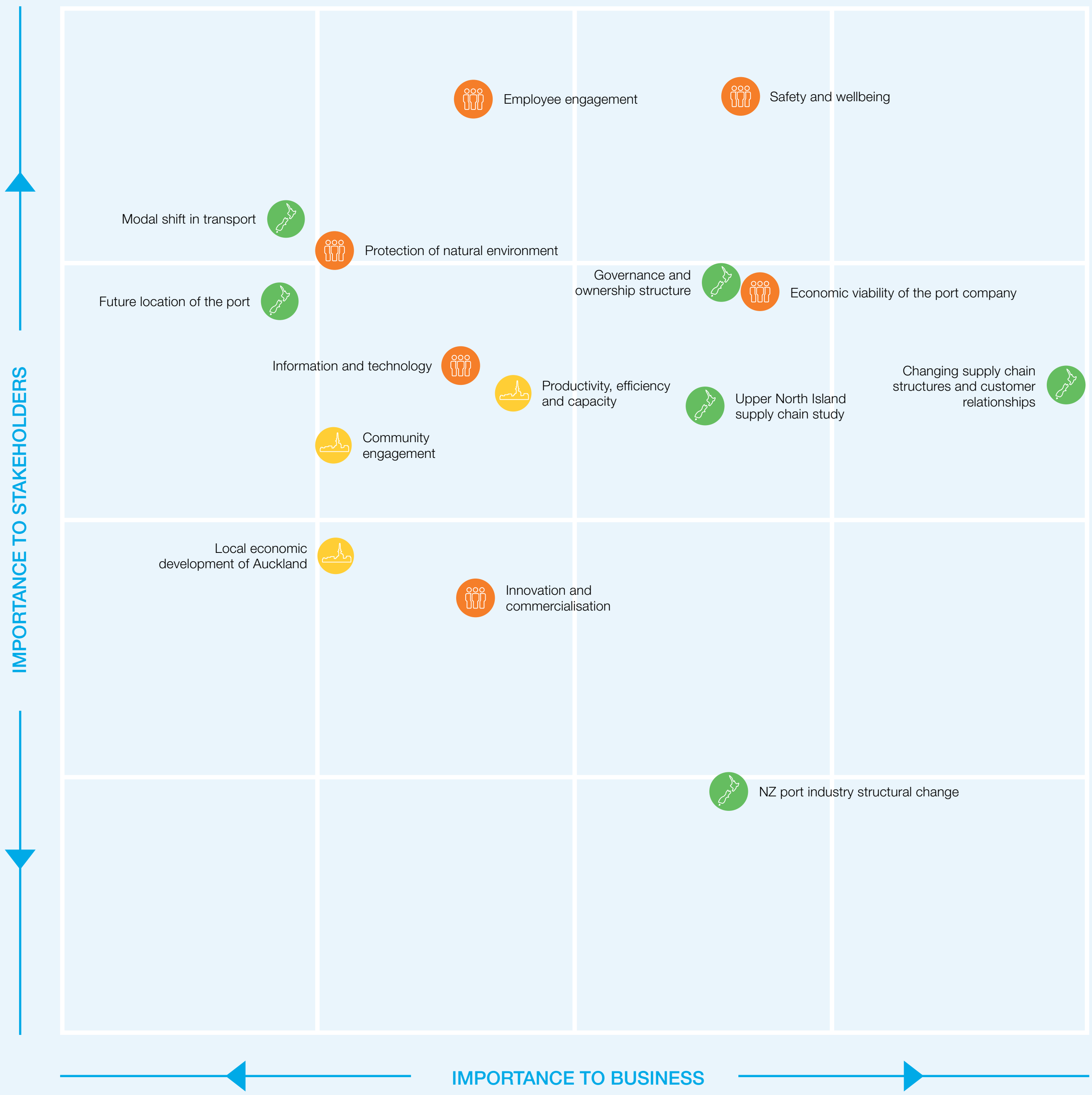
There is a wide range of social, environmental and economic risks that have an impact on our business, either directly or through our supply chains and customers. Understanding and managing the risks that have the greatest potential impacts on our business is crucial to developing a responsive and agile strategy. Risks constantly evolve, and we will continuously update our approach and response. A key focus for this year's report is stakeholder engagement and reporting on our material matters. They are part of our integrated reporting journey.

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 term.

OUR PRIORITISED MATERIAL TOPICS

At Ports of Auckland we work hard to supply the goods a growing Auckland needs as well as serving regional New Zealand. Our aspiration is to be a world-class port company known for our skilled people, innovation and sustainable practices. We have prioritised our material topics according to our strategy.

The heat map below reflects a snapshot of our most material topics.



This report focuses on the 15 material topics that have the greatest potential impact on our business. These are summarised in the table below and are discussed in more detail within the Chief Executive's statement on pages 24-38.

Changing supply chain structures and customer relationships	Managing the additional pressures on rates and capacity due to ongoing consolidation of global shipping lines, and developing new relationships with cargo owners
Economic viability of the port company	Ensuring we continue to deliver sustainable, profitable returns to our shareholder, Auckland Council
Safety and wellbeing	Prioritising the ongoing 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 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 through our Waitematā port and inland 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 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
Community engagement	Actively listening 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 truck 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

Our **strategy**

OUR OUTCOMES

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

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

OUR MARKET ENVIRONMENT

We are Auckland's port company: Our Waitematā port has always been a key part of the city of Auckland, playing a vital role in the economy and delivering the things that make Auckland a great place to live, study, work and play

Meeting the needs of a growing city: Auckland's population continues to grow, putting pressure on the city's infrastructure to be able to keep up with demand for more goods

OUR STRATEGIC OBJECTIVES

Working hard to support Auckland's growth and lifestyle by delivering goods into Auckland and engaging constructively with stakeholders

- Constructive relationships with community and iwi
- Increased public engagement, with open and transparent communications
- Step-change in container terminal capacity through straddle automation
- Step-change in car handling capability
- Appropriate capacity to meet growing volumes and larger ships
- Improved performance and productivity through innovation
- Optimising our resources
- Sustainable shareholder returns
- Maintain sufficient financial capacity to respond to market change risks

OUR PERFORMANCE TARGETS

- 55%+ overall favourability from Ports of Auckland community attitude survey
- 2019 straddle automation successfully completed
- 30-year master plan infrastructure developments completed on target
- Maintain profitability and dividends

Serving New Zealand's national freight needs in the most efficient and sustainable way

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

Supply chain opportunity: The Government's Upper North Island Supply Chain Strategy Study and the future location of our port provide potential change and opportunities for us and our stakeholders

Global shipping line consolidation: Supporting our customers and managing additional pressures on rates and capacity due to ongoing consolidation of global shipping lines. Managing the relentless drive to cut costs while managing larger ships and higher volumes per call

Supporting NZ Inc. by serving regional New Zealand and its freight needs, and collaborating with regional ports to deliver goods efficiently and sustainably

- 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
- Strong strategic partnerships with aligned New Zealand ports
- Actively engage in port sector structure change
- Ensure we have the optimal structure to take advantage of port sector structure changes

- Maintain productivity while automating the container terminal
- Achieve minimum of 80% customer satisfaction
- Waikato Freight Hub operational in 2019
- Minimum of 15% of container volume moved by rail
- Increase supply chain volume

To be a world-class port company known for our skilled people, innovation and sustainable practices

- Innovation leader
- Safe and empowered people
- Improved environment

Future of work: Global technology disruption is rapidly changing the way people live and work. People and businesses need to adapt to ensure they have the appropriate skills to overcome challenges and seize opportunities in the future work environment

Fight for talent: Employees are more mobile, more skilled and looking for fulfilling work in organisations that align with their values. They and society have higher expectations of safety, wellbeing, diversity and inclusion

The drive for new technologies and environmental sustainability: Our stakeholders expect more – to protect the environment while continuing to meet the needs of a growing Auckland

Aspiring to be an innovative and sustainable world-class port company, with safe and empowered people, working for Auckland and serving New Zealand

- Safety and wellbeing embedded into our culture
- Structures and systems for an engaged and skilled workforce
- Diversity and inclusion leveraged for competitive advantage
- Foresight and innovation embedded in our culture and operations
- Protection of our natural environment
- Responsible use of natural resources
- Leader in Auckland's transition to a low-carbon economy
- Rapidly adapt and respond to internal/external change and continue operations with limited impact
- New sustainable revenue streams through innovation and partnerships

- Zero lost-time injuries (LTIs)
- 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

Chief Executive's statement

2018 has been another successful year for our business. We have continued to invest and innovate to ensure we meet the growing freight needs of importers, exporters and the Auckland population. Our 30-year master plan for our Waitematā port site has been endorsed by Auckland Council and many of the projects are underway. In addition to our Auckland focus, we continue to implement our plan for supporting the regions and the rest of New Zealand with their import and export freight needs. Our inland port network continues to grow, and our new Waikato Freight Hub is on track to be operational in 2019.

FINANCIAL PERFORMANCE

Total group revenue increased from $222.4 million to $243.2 million, up $20.8 million, reflecting increased volumes and the inclusion of Nexus Logistics and CONLINXX revenue for the full year. Underlying profit for the Group was $59.2 million, up $4.2 million on the previous year. We have declared a dividend of $51.1 million to our owner Auckland Council, compared to $51.3 million last year.

OPERATIONAL PERFORMANCE

Volumes rose again this year, in line with continued growth in Auckland and the New Zealand economy. Container volumes were up 2% to 973,722 TEU (the highest annual volume ever) and breakbulk volumes (including cars) were up 4.2% to 6.771 million tonnes.

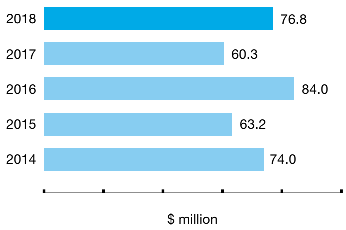
The volume of trade to the Pacific Islands slightly reduced this year due to service changes and adverse weather events, but we continue to provide a vital link to these communities.

Car volumes were forecast to increase by around 4% this year, but due to the impact of the brown marmorated stink bug they increased only slightly, with 297,678 units handled compared to 297,383 units last year. Despite the disruption, car dwell times fell slightly to 2.9 days on average, down from 2.93 in the previous year. See page 29 for more on the brown marmorated stink bug.

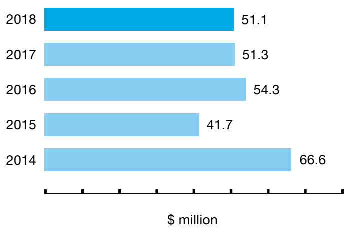
Given we are at or above our optimal capacity across the port and are in the middle of work to automate our container terminal, our operations team have a tough job to do to keep productivity high and deliver excellent customer service. Our container terminal team has delivered an average crane rate of 35.63 moves an hour this year, nearly one move per hour higher than the previous year (34.67). This would be an excellent result in a normal year, but in light of all the challenges they face at the moment it is outstanding.

With automation work continuing throughout the 2018/19 financial year, and other infrastructure projects due to start, it will not get any easier for our team. Our aim is to keep our service at its current level during this phase of work.

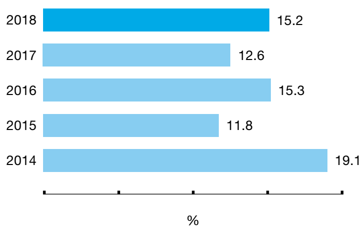
Net profit after tax



Dividend declared to Auckland Council

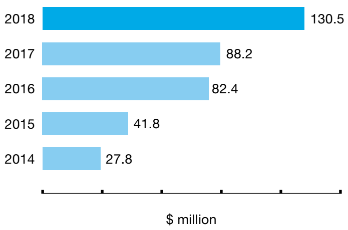


Return on equity
(excluding asset revaluations)

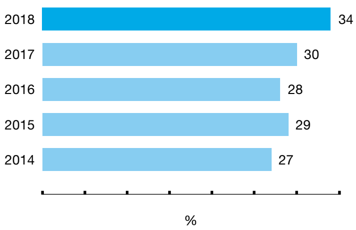


> We have continued to invest and innovate to ensure we meet the growing freight needs of importers, exporters and the Auckland population.

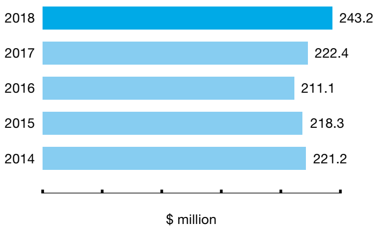
Capital expenditure



Interest-bearing debt to debt + equity



Revenue



There were 1,492 ship calls this year, a drop of 5.1% on the previous year. Container terminal ship calls were down as a result of weather issues and schedule changes. Multi-cargo ship calls were down by 80 compared to the previous year, which was inflated due to extra overseas navy visits in relation to the Royal New Zealand Navy's 75th anniversary. The deployment of larger vessels on the Pacific Island trade also reduced numbers.

In contrast, cruise and Ro-Ro (Roll-on, Roll-off) vessel calls were up. Despite the cancellation of five cruise visits due to repairs and weather delays, there were 108 visits compared to 100 in the previous year. Cruise passenger numbers increased significantly to 272,060 compared to 230,571 in the previous year, an 18% increase.

Overall, it is a picture of larger ships bringing more freight and people.

CAPACITY

We are experiencing capacity pressures across the port. Mergers and acquisitions in the container shipping industry have reduced the number of lines calling at Auckland from 14 in 2015 to eight now. Associated with this is a move to bigger ships delivering more cargo less frequently. This creates more intense 'peaks and troughs', putting strain on our people and terminal capacity. Due to intense cost pressure in the industry, container ships are less likely to speed up to make up for delays in their schedules to save on fuel costs, so they often arrive in our port outside schedule. Last year over 50% of all container vessels arrived out of window. We are focused on providing a fast, flexible service that helps our customers to regain lost time.

Capacity on our general cargo wharves is also under ongoing pressure, but here it is the result of rapid cargo growth and our inability to build the necessary infrastructure in the past. These capacity issues will be addressed by the 30-year master plan.

Ports of Auckland Executive team (L-R): Allan D'Souza, General Manager Operations; Reinhold Goeschl, General Manager Supply Chain; Diane Edwards, General Manager People, Systems and Technology; Tony Gibson, Chief Executive Officer; Wayne Thompson, Chief Financial Officer and Deputy Chief Executive Officer; Alistair Kirk, General Manager Infrastructure and Property; Craig Sain, General Manager Commercial Relationships

Delivering the goods to support Auckland's growth and way of life

OUR 30-YEAR MASTER PLAN

Auckland Council's endorsement of our 30-year master plan this year was a significant milestone that delivered much greater certainty about our future. We are now getting on with the plan and will start work on some significant projects this year.

NEW ZEALAND'S FIRST AUTOMATED CONTAINER TERMINAL

We are on course for Fergusson Container Terminal to become New Zealand's first automated terminal by late 2019, and only the third straddle carrier terminal in the world to be automated. Straddle carriers are the machines that move containers around the terminal.

Our approach to automation is unique – we are automating most of a working container terminal but keeping manual operations under the cranes to increase productivity. If successful, our approach could have worldwide application and major global port operators are watching with interest.

Automation will increase our container terminal capacity from 900,000 TEU a year to 1.6-1.7 million TEU, providing enough capacity for the next 30-40 years on our existing land area.

A lot of work has been done this year. 25 of our 27 new automated straddles have been delivered and assembled, and are being tested on site. Two-thirds of our truck grid has been converted for automated operation, new masts to support the positioning system and lighting have been erected, and we've installed 24 kilometres of fibre-optic cabling.

We've built a temporary engineering workshop for the automated straddles (which are too tall for the existing workshop) and a permanent workshop will be built within the next three to five years. We've also relocated the old container wash area and built a new refrigerated container handling area.

We have also completed a new 300-metre-long deep-water berth at the terminal and will take delivery of three new ship-to-shore container cranes in October.

The safety of our staff when introducing new equipment is paramount. We're in the process of updating our training simulators to be compatible with the new cranes and straddles. They will be ready by October 2018, when we will roll out training. We are also working to update our processes and interactions for automation and are working through a revised safety risk assessment for all interactions with the new equipment.

We are working closely with our team to ensure they understand the new opportunities these innovations bring. For more on our Future of Work programme and health and safety updates, see pages 33-35.

CHANGES TO VEHICLE BOOKING SYSTEM DRIVE EFFICIENCY

As Auckland grows, there is more congestion on the same roads that trucks use to move an increasing amount of freight to and from the port. While Ports of Auckland is working

OUR STRATEGY IN ACTION

New Zealand's first automated port

- Fergusson Container Terminal will become New Zealand's first automated container terminal by late 2019
- The innovation and automation projects in our 30-year master plan ensures our container terminal has the capacity to serve Auckland's growth for the next 30-40 years on our existing land areas

27
new automated straddles will be in place by 2019

1.6-1.7 million TEU
available capacity following our automation projects

to make the port more efficient and increase the use of rail, the supply chain also needs to adapt and increase the level of 24/7 operation to reduce peak congestion. One way we can help that change is by altering our business rules to encourage more weekend and night work.

We need to change the way we handle trucks ahead of automation, and have used this as an opportunity to make other changes. In May we changed our Vehicle Booking System (VBS) to improve the flow of trucks through Fergusson Container Terminal. We are also looking to reduce the incidence of companies booking slots and not using them, which just wastes capacity for other users.

The May changes showed some positive results, but we found some operators were using the system in ways that weren't intended, which caused delays and loss of capacity for other operators. Further changes were made in July, in consultation with trucking representatives, and so far the results have been positive. We have been better able to plan our resources and we are starting to see a better spread of trucks across the week.

There is an increasing need for upstream and downstream supply chain partners to communicate their demand more proactively, so logistics providers can manage their operations. In time, we believe digital platforms will include technology like blockchain to streamline this further and we have started to look at how we could use it in our business.

SERVING AUCKLAND'S GROWTH VIA OUR GENERAL CARGO WHARVES

Our general cargo wharves are currently operating above their design capacity, leading to congestion and slow

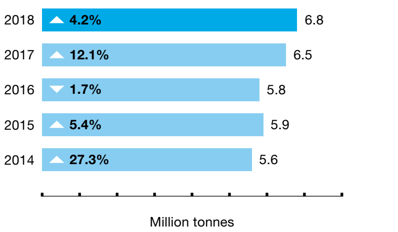
OUR STRATEGY IN ACTION

Delivering for Auckland for the next 30 years

- Our master plan ensures that we can efficiently and sustainably deliver over the next 30 years
- Endorsed by Auckland Council, and balancing Auckland's economic, social and environmental needs
- Providing community access to the port and introducing other land uses such as a hotel and public park

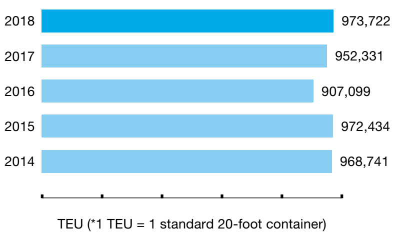
JULY 2018	Start removal of old Bledisloe container cranes
MID 2018	Apply for consent for the car handling building
OCTOBER 2018	New cranes for Fergusson Container Terminal delivered
LATE 2018/ EARLY 2019	Apply for consent for new Bledisloe North Wharf
EARLY 2019	Car handling building construction starts New cranes on Fergusson Container Terminal commissioned
MID 2019	Waikato Freight Hub operational
LATE 2019	Fergusson Container Terminal automation goes live
BY 2020	Completion of Fergusson Container Terminal expansion
2020	Channel and berth deepening
WITHIN 5 YEARS	Public park (on top of car handling building) New engineering workshop
WITHIN 10 YEARS	New head office
WITHIN 10 YEARS	Removal of part of Shed 51 and Bledisloe B1 Wharf to accommodate larger ships at B2 Wharf
WITHIN 10 YEARS	Marsden Wharf removal and reconstruction of Bledisloe South Wharf to create third Ro-Ro berth
10-15 YEARS	Fergusson North Wharf extension timing dependent on shipping needs
TIMING TBC	Hotel and rail grid automation

Bulk and breakbulk*

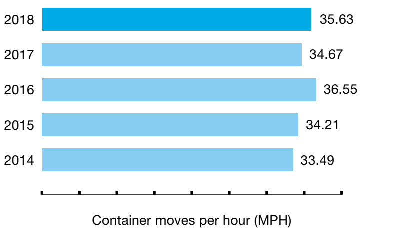


* Ports of Auckland's Waitematā seaport and Onehunga seaport. Includes cars.

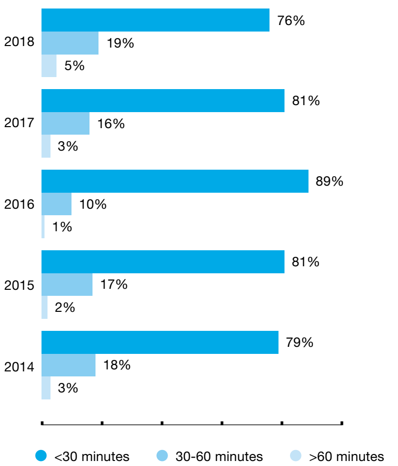
Container throughput (TEU)



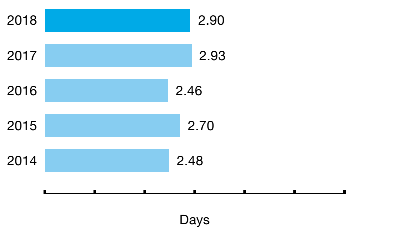
Crane rate
(Australasian Waterline Standard)



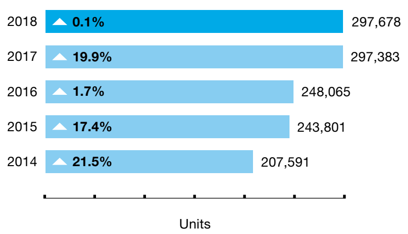
Truck turnaround
(% trucks turned around in time)



Car dwell times

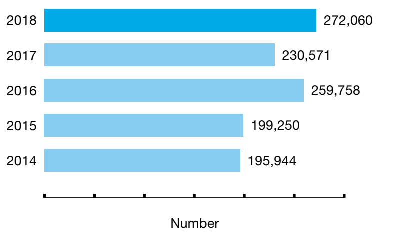


Cars*

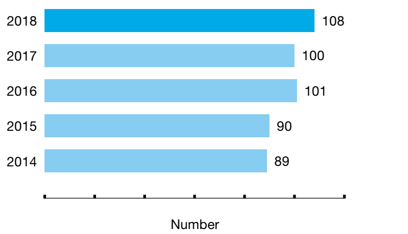


* In 2012/13 we introduced automated manifest and billing. This has meant that all other vehicles other than cars are measured in tonnes and not units.

Cruise ship passengers



Cruise ship calls



processing times, and an increase in the number of ships having to anchor in the Hauraki Gulf, waiting for a berth. As well as cars and other vehicles, these wharves serve the Pacific Island export trade and bring in the materials needed for Auckland's construction and infrastructure boom.

The 30-year master plan includes a number of projects designed to deal with this capacity constraint.

NEW CAR HANDLING BUILDING

The demand amongst Aucklanders for new and used cars has resulted in continuing high volumes of new and used vehicle imports. Volumes are forecast to increase as a result of growth and the move to replace existing cars with electric vehicles. This is a trend already obvious on our wharves as more used electric vehicles are being imported, giving Aucklanders the chance to be environmentally friendly at affordable prices. The conversion of the New Zealand fleet to electric means this will be a significant activity at our port over the next 30 years.

The main drawback of cars is that they can't easily be stacked, so they take up a lot of space on the waterfront and attract many negative comments from the public. Under the master plan we will address that by building a five-storey car handling building to provide more capacity, hide cars from view and free up space on other wharves. On top of this building we plan to create a new waterfront park and next to it, on Quay Street, a new hotel. These are exciting new projects that will open more of the waterfront to the public.

The car handling building is needed urgently to address existing capacity issues but also to free up space on Marsden Wharf to accommodate

Auckland's fishing fleet, which has to be relocated to make room for the America's Cup. Resource consent for the building's earthworks was lodged in July 2018 and we aim to start construction in February 2019 in order to complete the building in 2020.

While the majority of the design work on the building is complete, we have not yet finalised the façade and will be consulting stakeholders on its design in coming months. A car handling building is of necessity very functional, so we are using the façade to improve the look of the building and how it integrates with the rest of the CBD.

NEW WHARF

To meet growing demand, we are planning a new wharf on the north end of our Bledisloe Multi-Purpose Terminal. Design work is underway, and we intend to start talking to stakeholders soon with a view to lodging resource consent within the next six months.

It will be a piled structure, in line with our commitment to end reclamation in the Waitematā Harbour. It will extend 13 metres north of the current Bledisloe wharves, but this 13 metres will unlock capacity at other general cargo wharves, creating more space for cargo, cruise ships and public use.

DISPOSAL OF DREDGED MATERIAL

Our third new master plan project underway this year is an application for consent to dispose of dredged material at sea.

Like all ports, Ports of Auckland needs to dredge our berths and channel for safe navigation or to accommodate larger ships. Currently dredged material is used in reclamation, but when the Fergusson Container Terminal reclamation is completed in the next couple of years this will no longer be an option. We are seeking to use the existing 'Cuvier Dump Site' 150 kilometres from Auckland for disposal. Since World War II the site has been used for the disposal of ammunition, decommissioned vessels and dredged material from Auckland marinas. Ports of Auckland also used the site for the disposal of dredged material in the 1990s.

We are currently conducting research and consulting stakeholders, and plan to apply to the Environmental Protection Authority for consent in September 2018.

For further information on our 30-year master plan, visit www.masterplan.poal.co.nz.

SUCCESSFUL MANAGEMENT OF BIOSECURITY RISKS

A particular challenge for us and the car industry this year has been the brown marmorated stink bug, which came in on car-carrying vessels from Japan. This bug has the potential to devastate our horticulture industry so simply had to be stopped. Some ships were turned away without unloading and a new fumigation and inspection regime was introduced by the Ministry for Primary Industries.

This had the effect of stopping the vehicle import trade temporarily and when it did resume processing times increased dramatically. After a couple of months, once the new processes were embedded, there was a dramatic increase in car volumes as importers worked to clear the backlog of cars on wharves in Japan. In May 2018 we handled 39,670 cars compared to an average volume of 25,000 and the first time we've ever handled more than 30,000.

It was a testing and costly time for the industry, but we can be proud of the way the entire industry worked together to get through the problem. We had great cooperation from the trucking industry, importers, compliance centres and others to clear huge volumes of cars from the wharf. I'd also like to acknowledge the hard work of our multi-cargo team and their innovative approach to finding solutions, such as mooring car ships at our newly built container terminal wharf for 'fogging' (a type of fumigation), which allowed us to keep our other wharves free for cargo handling.

CONTINUED GROWTH IN CRUISE

The cruise industry has continued on an upwards trajectory. We provided marine and passenger handling services for 108 ships this financial year, up from 100 last year, and are expecting more next year. This growth is fantastic for the Auckland economy, bringing more than 272,000 tourists into the city during the course of the year.

Next year the Majestic Princess, which carries more than 3,500 guests and 1,300 crew, will make six visits to Auckland. At 330 metres long, it will be the largest vessel we have been able to berth at Princes Wharf. Larger vessels such as the Ovation of the Seas, which will be making several calls next season, cannot berth at any Auckland wharves. Passengers from these vessels have to be ferried ashore in 'tenders', the cruise ship lifeboats. This reduces the attractiveness of Auckland as a destination and the money Auckland can earn from provisioning ships and providing additional services to passengers.

Auckland Council, which owns the city's main cruise berth, is looking at how it can provide new infrastructure to accommodate large vessels and enable Auckland businesses to take advantage of the economic opportunities available. In July council controlled organisation Panuku Development Auckland applied for consent to build two mooring structures (called 'dolphins') that would allow the larger ships to berth.

ACTIVE IN THE COMMUNITY

As a port we deliver significant economic benefits to Auckland. In the Auckland region Ports of Auckland facilitated $14 billion in value added (GDP) in 2015 or 169,000 job equivalents, representing 20% of economic activity in the Auckland economy in 2015. This is a very important part of our role, but we recognise that life isn't just about money. We also have a role to play as an active and responsible member of the community, so we are pleased to support activities that bring life to the waterfront, support young people and promote health and wellbeing. We work closely with our stakeholders and the local community and this year continued to host schools, community groups and business, political and international representatives at the port. We are committed to being open and transparent and responsive to the needs of our customers and the communities we serve.

This year we held our fifth SeePort event, in which we throw open the gates and invite Aucklanders to see the port. This was our most successful year yet, with more than 72,000 people visiting the port during Auckland Anniversary weekend. The Sunset Symphony & Fireworks event on the Sunday night, with the Auckland Symphony Orchestra and The Lady Killers, attracted more than 14,000 spectators. SeePort allows the public to explore the port by land, sea and air, see its operations up close and learn about the future of the port.

Ports of Auckland's Round the Bays fun-run 2018 was another triumph, with more than 30,000 registering to run the 8.4km route around the bays from Quay Street in the CBD, past the port and on to St Heliers Bay. Our staff love this event, and this year a team of around 1,000 staff and their families took part. Each year Ports of Auckland Round the Bays donates money to a selected charity – this year $20,000 went to the Spirit of Adventure Trust, $15,000 went to Lifeline and $15,000 went to South Auckland Riding for the Disabled. We are proud to play an active role in this event.

We also like to get together with our customers and industry partners to enjoy some golf and raise money for charity. This year 29 industry teams joined us for the annual Ports of Auckland Golf Day and raised $40,000 for Ronald McDonald House Charities.

We are supporting SCOUTS New Zealand again this year, as it is an organisation that does great work in youth development. We provide $50,000 annually to support an Auckland Region Development Officer to help SCOUTS grow and to support the largely volunteer leaders.

We continue to support a range of on-water port tours. Our mainstay is our partnership with the New Zealand Maritime Museum to provide weekly school tours year round. These tours are free to all schools as we feel it is important for all children to have access to out of school experiences and it is important for students to learn about the port's economic and social role in

OUR STRATEGY IN ACTION

Welcoming 75,000 Aucklanders to the port

- Each year over Auckland Anniversary weekend, we welcome the community to explore the port on land and water, and to see our operations up close
- The Sunset Symphony & Fireworks event is a highlight in the local calendar, alone attracting over 14,000 spectators

72,000
visitors during the weekend

5th year
of SeePort festival

> We are an import-dominant port thanks to our proximity to New Zealand's largest consumer market, Auckland.

Auckland. We also offer tours during the school holidays, for which we charge a small fee. Profits from these tours are used to help cover transport costs for low-decile schools taking the port tour.

Finally, we provide funding for the steam tug William C Daldy to provide public tours during Auckland Heritage Festival. There is a small charge for these tours – we keep it low to ensure the tours are accessible to a wide range of people – and the money raised is shared between the William C Daldy Preservation Society and our school transport subsidy fund.

We also support the Spirit of Adventure Trust by providing berthage at Princes Wharf. We sponsor the export category at the Westpac Auckland Business Awards and the Ports of Auckland Anniversary Day Regatta and we offer tug and crane tours for schools and charities to auction to raise funds. These tours are very popular, often selling for hundreds and sometimes thousands of dollars!

CELEBRATING AUCKLAND'S BEGINNINGS

Ports of Auckland has worked with local iwi Ngāti Whātua Ōrākei to create a special kōhatu (stone of remembrance) to pay tribute to Āpihai Te Kawau. Te Kawau gifted the land that established the new capital of Auckland in 1840.

Te Toka o Āpihai Te Kawau is a place where all people can come to learn about the history of Tāmaki Makaurau on the edge of the Waitematā Harbour. The memorial has been created along the port's historic Red Fence on Quay Street, near the former tip of Rerenga Ora Iti (Britomart Point). It is intended to be an attraction for locals and tourists alike. The memorial's design is centred on Āpihai Te Kawau's rock, set on a basalt stone bench, surrounded by a series of glass panels detailing the early history of Auckland.

Serving New Zealand's national freight needs

Our customers need a flexible and efficient supply chain and we aim to help them by developing a rail-connected North Island freight hub (or inland port) network and increasing our collaboration with other regional ports. We are an import-dominant port thanks to our proximity to New Zealand's largest consumer market, Auckland.

By offering an efficient connection to overseas markets through our freight hub network we can support regional growth, balance our freight flows and reduce the unnecessary movement of empty containers. This approach has financial and environmental benefits for importers, exporters and our business.

We currently have three freight hubs in operation in South Auckland, Manawatū and Bay of Plenty, and a

OUR STRATEGY IN ACTION

Supporting Waikato importers and exporters

- The Waikato Freight Hub is in development, linking local importers and exporters to our regional port network
- Open Country Dairy has signed as our first customer, with its warehouse due to be complete in 2019

2019
first stage becomes operational

33
hectares of space

fourth in development in Waikato. All are strategically located next to rail and are at the centre of current and planned freight generation and consumption areas. Once Waikato is operational our inland hubs will provide nearly 400,000 TEU per annum capacity for exporters.

The Waikato Freight Hub, is located in the heart of the 'Golden Triangle', New Zealand's fastest growing region. It has excellent rail and road connections to New Zealand's two largest ports, the lower North Island, and three of the country's five largest cities. The Waikato Freight Hub will be connected by rail to existing hubs at Wiri, Mount Maunganui and Longburn.

The earthworks at our Waikato site are now completed and we've started building a facility for our first customer, Open Country Dairy – New Zealand's second largest exporter of whole milk powder. The initial phase will be complete in mid-2019.

IMPROVING OUR SUPPLY CHAIN MANAGEMENT

Nexus Logistics and CONLINXX have now been fully owned by Ports of Auckland for a full year. Nexus Logistics is a 4PL company, helping customers to use existing freight networks to move goods more efficiently. CONLINXX is a 3PL company, providing handling services such as trucking, rail handling and freight hub operations.

Over the past year Nexus Logistics and CONLINXX have focused on improving the integration and functionality of their systems, including investing in a new transport management system that will go live early in 2019. This will provide their customers with improved transport booking services and track and trace functionality through an online portal.

DELIGHTING OUR CUSTOMERS

We remain close to our customers because we recognise that understanding customer needs and meeting them by providing good service is the foundation for a successful business. We meet regularly with customers and get regular feedback, but we also conduct two formal surveys every six months to measure our performance and identify areas for future focus. Despite the challenges of dealing with stink bugs and working around automation projects, this year our customers still gave us an overall satisfaction score of 8/10, consistent with last year's survey.

Our customers appreciate our focus and efficiencies, which is why we were voted Best Seaport in Oceania at the Asian Freight, Logistics and Supply Chain (AFLAS) Awards for the third year in a row. The awards are voted by service users, not a panel of judges, meaning the results truly represent the opinion of the people who matter most. We were competing against ports in Australia, New Zealand and the Pacific, and we are delighted that our customers have once again shown their confidence in us. We will continue to work hard to win the same vote of confidence next year.

WORKING WITH OTHER PORTS

A key part of our approach is working closely with other ports in New Zealand and internationally as we develop our supply chain solutions, so exporters and importers are provided with the most efficient and sustainable way to move their goods. We share learnings and best practice initiatives. We are working to identify the ports around the world with similar geographical challenges and opportunities.

We are also committed to working closely with Northland. We own 19.9% of Marsden Maritime Holdings, which in turn owns 50% of Northport and Ports of Auckland's Chief Executive Tony Gibson has recently been appointed as a Director. We also have a joint venture with Port of Tauranga, which operates North Tugz, which provides towage and pilotage services to Northport and Refining NZ at Marsden Point.

DEVELOPING OUR RAIL NETWORK

Rail is an essential part of our inland hub strategy. Being located so close to our market is a great advantage for us, but it also means trucking is often the quickest and easiest way to deliver goods from the port. That means we have to work harder to move more containers by rail and so do our bit to reduce emissions and congestion on the roads around the port. Our inland freight hubs in South Auckland, Mount Maunganui and Longburn are already rail connected, and we have begun design work on the connection for our Waikato Freight Hub. This is due to be completed in 2020, and will provide a big boost to our ability to use rail to move containers to and from the port.

The next step we will look at – which is part of our master plan – is the automation of our rail grid at the port. Automation has the potential to reduce significantly the cost to our business of moving containers by rail and will make it more competitive with road transport.

We would also like to acknowledge the Government's commitment to rail, especially the decision to construct a third rail line on the North Island Main Trunk line between Westfield and Wiri, with the potential to construct a fourth main line soon after. This is one of the key pinch points on the network and extra capacity in this area will benefit both freight and passenger rail.

> We are focused on creating an innovation culture where our people are empowered to discuss new ideas.

Skilled people, innovation and sustainable practices

We aspire to be a world-class innovator and a leader in sustainable practices, looking for opportunities to use technology to work efficiently while utilising less space.

DATA AND THE INTERNET OF THINGS

In the past six months we've introduced a new Information and Analytics Team to help us get the most out of our data. So far, we've been able to gain insights into how to improve the flow of freight on and off the port and predict when we should be servicing key equipment.

For example, we have a large amount of data on how long cars stay on port, when they are moved and by which companies. By looking at this data we've been able to see where there is additional capacity to move cars and we've changed our business rules to encourage trucking companies to use this capacity. The end result will be that cars will stay on the port for a shorter time and our overall capacity will increase.

Another example is vehicle maintenance, which in the past was based on hours worked. By analysing data from the fuel monitors on our straddles, the data team found hydraulic leaks and inefficiencies that were able to be fixed, saving around $30,000 a year.

We are taking this further by developing 'digital twins', where we build virtual copies of the machines we use on port, for example our new automated straddles. The virtual 'twins' can then be used to monitor performance and for predictive analysis, improving maintenance and reducing down time.

EMBEDDING A CULTURE OF INNOVATION

We are focused on creating an innovation culture where our people are empowered to discuss new ideas. We have established an Innovation Hub to provide opportunities for people to present new ideas and for managers to work those ideas through to completion. The hub is about intrapreneurship: our employees are given licence to act like entrepreneurs and take risks to solve industry problems and create new services. An essential part of that culture is to change the way we view failure. Not every new idea will work, there will be failures, and we need to treat those as learning experiences and apply the lessons to create future success. It's a new way of working, but one that has the potential to lead to new and exciting business opportunities.

NAVIGATING THE FUTURE OF WORK

Our people are our number one priority while we look towards the future. Like most industries and professions, the new technologies we are introducing are disruptive of traditional ways of working. Some jobs will disappear, some will change and new jobs will appear. We are anticipating and proactively planning for the kind of future we believe will be best for our staff, our customers and the communities we serve.

We feel we have a social responsibility to help our people navigate what are sometimes unsettling changes, and have developed a Future of Work

OUR STRATEGY IN ACTION

Navigating the future of work

- We are focused on anticipating and proactively planning for future changes which will impact our business and workforce
- The stevedores impacted by automation are being retrained, as truck drivers for example
- Our Future of Work workshops introduce our people to future opportunities

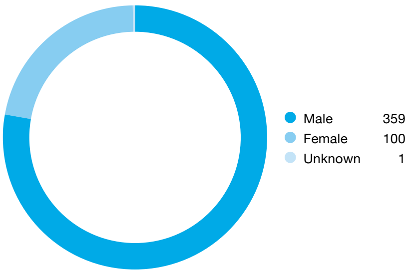
445

people participated in our purpose workshops

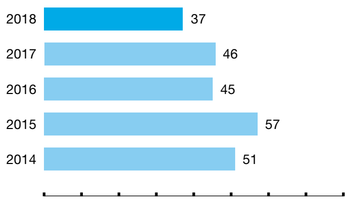
2

containers fitted out for Future of Work facilitated workshops

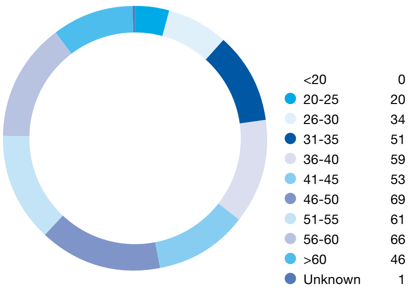
Staff gender balance*



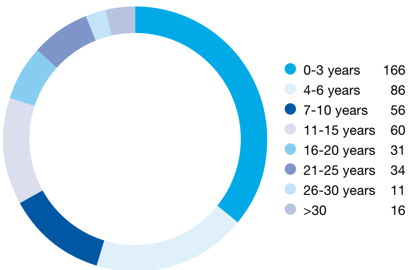
Medical recordable injuries



Staff age profile*



Staff years of service*



* Permanent staff only (does not include casual, fixed term and contractors).

** Injuries per 100,000 hours worked.

† Calculation changed to be per 1,000,000 hours worked rather than 100,000 to ensure we were using an international standard.

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

programme to help with this. We have built an interactive display – in two containers, naturally – which shows how the port has evolved over time and how it may evolve in the future. Staff are taken through the display in a facilitated workshop and encouraged to think about how the coming changes will affect them and their families. We encourage all staff to take part in this programme and will eventually widen it to include their families and communities.

On top of this educational programme, we've begun retraining staff to future proof their employment. For example we are currently retraining some stevedoring staff to work as truck drivers. This not only provides them with strong future work opportunities, but also helps our industry to manage its driver shortage.

We plan to bring more people through this programme, which could involve retraining some staff in trades (like plumbing or construction) or we may put some staff through university courses in fields like engineering. This programme is about striking a balance between continuing to staff our lean operation at

OUR STRATEGY IN ACTION

Protecting our people

- We are focused on ensuring our health and wellbeing programmes are embedded in our culture
- Our PortSafe online reporting tool and app focuses on helping our people understand and avoid potential risks

5

lost time injuries (LTIs) – the same as the previous year

4 years

our engineering department has now been LTI free

> We place great importance on identifying and managing our 'critical risks' – risks that could kill or seriously hurt somebody.

the port and giving staff the tools they need to be employable in the future.

In addition to our Future of Work programme, we are holding workshops with our staff to talk about the future of the port, the purpose of the company and their role in it. Led by myself as Chief Executive, the first round of workshops have been well attended with a high level of engagement from staff. Two more rounds of workshops will be held over the next financial year.

NEW APPROACHES TO SAFETY AND WELLBEING

Our drive for better safety and wellbeing outcomes and commitment to zero harm requires us to continually improve our processes. We prioritise the safety and wellbeing of our people and everyone we interact with as we go about our business. We work hard to ensure that safety and wellbeing are embedded into our workplace culture, and that we have programmes underway to ensure we continue to provide our staff with a safe and rewarding place to work.

While our goal is to have no 'Lost Time Injuries (LTIs), unfortunately this year five Ports of Auckland employees had injuries that resulted in them having to take time off work. Although this does not exceed last year's figure, it is still disappointing. The injuries related to slips, soft tissue strains and in one case a broken bone in the hand. Ports of Auckland's LTI rate is 4.6 injuries per million hours worked. We will be celebrating with our engineering department again as they have now gone four years without any LTIs.

There were three LTIs in Ports of Auckland subsidiaries this year, one in CONLINXX and two in Bunker Shipz.

We have been charged by Maritime New Zealand for a breach of the Health and Safety at Work Act in connection with the tragic death of ocean swimmer Leslie Gelberger. The court case is ongoing.

We continue to use PortSafe, our online safety and wellbeing tool, which is designed to help us understand, manage and eliminate risks to health and safety.

Ports of Auckland has a large number of contractors at the port every day, undertaking tasks from stevedoring to construction and more. This year we have added a contractor management module to PortSafe, which provides a centralised platform to manage all contractors across the port. This includes conducting contractor audits and pre-qualification checks, tracking contractor users' training records and recording their company documents.

We place great importance on identifying and managing our 'critical risks' – risks that could kill or seriously hurt somebody. Each month we thoroughly review one critical risk to ensure that the controls we have in place are sufficient and working well. We then report on these critical risks to our Executive team and Board as part of our ongoing risk management.

This year we will be the first port in the country – and one of only a few in the world – to introduce a new safety feature to our cranes that will remove a critical risk from our workplace.

OUR STRATEGY IN ACTION

Putting safety first

- We have introduced a new safety feature on our cranes to allow the removal and installation of container twist-locks to occur above ground level, away from straddles and other heavy machinery
- This removes a significant health and safety risk, which is worth the slight drop in productivity on our cranes

5

new lash platforms to be installed on our container cranes

1st

in New Zealand to introduce this safety feature

One of the jobs at the port is the removal and installation of twist-locks on containers as they come off or go on to a ship. Twist-locks are installed on the corners of containers and lock them securely together when on board.

This process is currently carried out at ground level in the same area where our straddle carriers – 60 tonne container lifting machines – come to pick up and drop off containers. While we have not had an accident in this area we have had near misses and would prefer to eliminate the risk.

To address it we are installing 'lash platforms' on our cranes, above ground level, so our people can work out of the way of the straddles. This new approach ensures a safer working environment for our team. Installing lash platforms will result in a slight drop in productivity on our cranes, but safety comes first.

The lash platforms have been delivered and will be installed over the rest of 2018. Our new cranes have been built with lash platforms already in place.

We are extremely sad to report that on 27 August 2018 one of our staff was involved in a straddle accident and subsequently passed away. The accident is currently being investigated internally as well as by WorkSafe New Zealand.

RECOGNITION FOR OUR TRAINING PROGRAMME

With training and development such an important part of the Future of Work programme, we're proud that three staff members recently won awards at the New Zealand Association for Training and Development Awards. We are proud to be the only port represented at these awards. Michelle Smith, Manager Systems Training, won the Emerging Learning and Development Practitioner Award for establishing our Learning Management System. Michelle only entered the learning and development field in the past five years. Diane Edwards, General Manager People, Systems and Technology, won the Learning Practitioner of the Year award, recognising her work developing women leaders at Ports of Auckland. Eddie Haretuku, a former longstanding staff member, won the On the Job Trainer/Coach of the Year award for his stevedore training programme. Diane also won the Overall Learning and Development Person of the Year award.

DIVERSITY AND INCLUSION

Diversity and inclusion are key priorities as part of our people and culture strategy. We recognise the benefits of a diverse workforce, providing different perspectives and helping us to do things differently and innovate.

As a port company, we are operating in what has traditionally been viewed as a male-dominated industry. We are focused on developing further opportunities for women. Last year we set a target of increasing the number of women in our workforce from 20% to 30%. Unfortunately we have not been as successful as we would have liked, and we have only increased that number to 22%. We will continue to focus on the barriers and biases (many unconscious) that prevent women from considering a career in our industry. An important project underway is to review our pay equity to ensure we are paying men and women fairly. This year we completed a review of our top earners which resulted in pay adjustments for a number of women staff, some significantly. We continue to be a major sponsor of Global Women and a key sponsor of the Women's International Shipping and Trading Association New Zealand

OUR STRATEGY IN ACTION

Moving towards zero emissions

- Our goal is to become emissions-free by 2040
- This year we were the first New Zealand port to be audited and verified by CEMARS® (Certified Emissions Measurement and Reduction Scheme)
- This accreditation recognises our actions and shows that we understand the carbon liabilities of our business

SBTi **1st**
port in the world to commit to setting science-based targets to reduce emissions

2040
year we become zero-emissions

(WISTA NZ). These sponsorships provide our team with additional support and networking opportunities.

Diversity of ethnicity and age are also key priorities for us. We currently have more than 40 nationalities within our workforce, contributing different ideas and perspectives. We also have employees spanning a wide range of age groups. This provides us with fresh perspectives and ideas, while also ensuring we retain experience and expertise in the business. Our new graduate programme continues to provide us with new talent. Our graduates are not only learning about the port, but also taking on active reverse-mentoring roles in our Future of Work programme.

We like to celebrate our diversity, and one way we do so is through shared cultural events to mark Christmas, Matariki and Diwali at appropriate times of the year.

EMISSION CERTIFICATION – A FIRST FOR THE NEW ZEALAND PORT INDUSTRY

Ports of Auckland has an ambitious goal to be become zero emissions by 2040. To help us achieve this we have become the first port in New Zealand to be CEMARS® certified. We partnered with Enviro-Mark Solutions and are using the Certified Emissions Measurement and Reduction Scheme (CEMARS) to measure and manage our greenhouse gas emissions.

The first phase has been to measure the direct and indirect emissions associated with our business and those of our subsidiaries (our diesel and electricity usage, air travel etc). We have not yet measured emissions produced by third parties over which we have no control, for example the ships, trucks and trains that come to the port. But we plan to include these at a later stage.

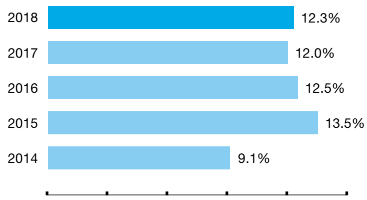
Total Greenhouse Gas (GHG) emissions increased to 16,798.95 tonnes of CO2 equivalent (tCO2e) (unaudited) from 16,208.48 tCO2e the previous year.

The largest sources of increase was the diesel used in marine operations (tugs & pilot boats) and straddle operations. Increased diesel use in straddles is a result of higher container volumes and the fact our our container terminal is operating at capacity, which increases the number of times containers have to be moved while they are on the port. The increase in marine diesel usage was largely caused by longer pilot boat journeys (because of a change in the location of the pilot transfer point in the harbour). While our total gross GHG emissions have increased, GHG emissions per million revenue has decreased from 72.88 tCO2e to 69.13 tCO2e, a reduction of 5.4%.

A more detailed evaluation of our emissions profile will be published once our emissions inventory has been audited. Our emission reduction plan focuses first on improving energy efficiency and then implementing further renewable energy and zero emission technologies. We are exploring options for zero-emission technologies for container handling equipment and harbour fleet vessels, and installing solar panels on office buildings to provide alternative sources of energy.

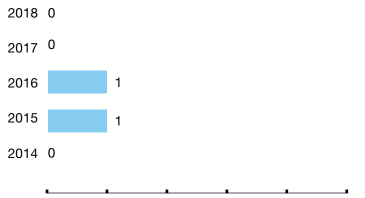
Efficiency improvements at the port are being implemented through behavioural changes, upgrades of assets to more energy efficient options, and through research projects. Behavioural changes will be achieved with training and by leveraging the port's improved data analytics capability. The data analytics team is turning data from the project into useful information that can be used to raise awareness and readily measure and manage operational efficiencies.

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



Note: Volumes refer to the Waitematā seaport only.

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.

In June 2017 we completed a project to replace half of our flood lights with LED fittings. The upgrade has been in place for a full year and has been an outstanding success. Because our lights are not metered separately we can't detail the exact energy saving, but we can see that energy consumption at one substation is down 13.9% and at another it is down 44.3%.

We expect more savings when we complete the replacement of fittings at the rest of the port this year.

We are also working closely with the University of Waikato to develop a pilot programme to establish a DC (direct current) micro grid for buildings and freight hubs at the port. Traditionally buildings have been wired for AC (alternating current), while solar panels produce DC energy, which has to be converted to AC before it can be used. Our pilot programme eliminates the need for conversion, creating a more

REDUCING, REUSING AND RECYCLING INDICATOR

	2014	2015	2016	2017	2018
Electricity used by port operations (kWh)		19,452,137	18,671,128	17,305,400	17,865,976
Electricity used by port operations (kWh) per TEU*		20.00	20.58	18.17	18.35
Diesel used by port operations (litres)	3,211,682	3,113,857	2,763,529	2,802,525	2,924,740
Diesel used by port operations (litres) per TEU*	3.32	3.20	3.05	2.94	3.00
Diesel used by straddles (litres) per engine hour	21.69	20.71	20.87	21.21	21.50
Diesel used by port service – marine (litres)	735,825	839,044	775,361	740,665	863,124**
Water used by port operations (cubic metres)	81,242	68,949	88,160	103,305	77,902
Water used by port operations (cubic metres) per TEU*	0.08	0.08	0.10	0.11	0.08
Total dredgings used as environmentally friendly fill, including mudcrete (cubic metres)	34,000	13,700	47,854	31,000	67,448

* 1 TEU is a standard 20-foot container.

** Also includes diesel purchased but not yet used.

sustainable energy system which conserves around 10% of energy. We hope this will be used more widely at the port and can be introduced to other New Zealand businesses and even homes in the future.

IMPROVING OUR WASTE MANAGEMENT PLAN

When we first looked at setting a sustainability strategy in 2016, one of the topics that really exercised our staff was waste, so we set a target of sending zero waste to landfill by 2040. This is a target which has really energised our staff, and this year a group of volunteers from our Sustainability Team found time in addition to their day jobs to design and implement a new waste management plan.

The group set a preliminary target of a 70% diversion of waste from landfill by 2019. In the first three months since its introduction, the programme lifted diversion rates from an average 42.28% to an average 61.75%, with the result that more than 40 tonnes of office and general waste were diverted from landfill. We do have a way to go in getting to zero, but I take my hat off to this team and the work they've done to get us moving toward the target.

> When we first looked at setting a sustainability strategy in 2016, one of the topics that really exercised our staff was waste, so we set a target of sending zero waste to landfill by 2040.

Tony Gibson Chief Executive

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, first with Seabridge in Wellington, and then with Nedlloyd and P&O Nedlloyd. He worked in various roles in Africa, Asia and Europe, including as European Director of Customer Operations, Rotterdam, before being appointed Managing Director, New Zealand and Pacific Islands in 2002. Following a take-over by Maersk, Tony served as Managing Director of Maersk New Zealand for three years. Most recently he has pursued his own business interests as a director and then Chairman of EROAD, a road-user-charge solution provider. In 2008 he was appointed by the Minister of Transport to the Road User Review Group.

Wayne Thompson

Chief Financial Officer and Deputy Chief Executive Officer

Wayne joined Ports of Auckland in 2004. As CFO, Wayne brings strong commercial and financial analysis and focus to existing activities, development opportunities and initiatives. In November 2016 Wayne was appointed Deputy Chief Executive Officer. Previously, he was CFO at Owens Group, a publicly listed freight and logistics company and prior to that spent 13 years with the Comalco Group, based in New Zealand and Australia.

Diane Edwards

General Manager People, Systems and Technology

Diane has been working with Ports of Auckland since 2011. Diane has had an eclectic career spanning roles in a diverse range of positions including teaching, operational management, accounting, business reengineering, IT, training, human resources and change management. She has worked within the private, public, central government and not-for-profit sectors, including overseas experience in the UK, USA, Australia, India and Tanzania. Relevant industry experience includes periods consulting within P&O Nedlloyd, Maersk New Zealand and the Ministry of Transport.

Allan D'Souza

General Manager 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 vessel for a global shipping company – The Great 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 more than 25 years' experience in the shipping industry, including more than 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 to 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.

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 and Skellerup Holdings and a Director of EBOS Group and Yellow Pages Group. Liz is President and a Chartered Fellow of the Institute of Directors in 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 and Sanford. 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 also Chair of the Risk and Assurance Committee of Inland Revenue.

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 Chair of WEL Networks, Ultrafast Fibre, PTI Group, 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)

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.

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 Chair of Foster's Group Pacific in Fiji.

Patrick Snedden
MNZM BCom BA

DIRECTOR

Pat has been a director since May 2012. He is Chair of the Auckland District Health Board and previously chaired the Housing New Zealand Corporation and the Counties Manukau District Health Board. He has been a Treaty of Waitangi negotiator for both iwi and the Crown. He was also a Director of Watercare Services, Auckland's wastewater and water company.

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.

Pat is also the Chair of 'A Better Start', one of the National Science Challenges funded by the Crown, and 'The Big Idea', New Zealand's online hub for creative people.

Collectively, our Directors hold experience developed during successful careers in shipping, logistics, transport and management in New Zealand and abroad and have extensive experience at both executive and board levels.

Sarah Haydon
BSc FCA CMInstD

DIRECTOR

Sarah was appointed a Director in August 2016. She is the Deputy Chair of The Co-operative Bank and the Institute of Geological and Nuclear Sciences, and a Director of Cavalier Corporation. Sarah also chairs the Board of the New Zealand Riding for the Disabled Association.

She is a Chartered Accountant and a Chartered Member of the Institute of Directors of New Zealand.

Sarah has previously been 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
BCom FCA CMInstD

DIRECTOR

Karl was appointed a Director in October 2016. He is a professional director, having been 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, Building Point New Zealand, Sitech Construction NZ and Crusaders Partnership. He is currently a Director of VetSouth, Hall's Group and Atlantic Marriner.

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 became a Fellow of Chartered Accountants Australia and New Zealand.

Bill Osborne
MBA CMInstD

DIRECTOR

Bill was appointed a Director in May 2017. Bill is a professional director and chairs the PlantTech Research Institute and Page & Macrae Limited and is on the boards of Transpower, PlantTech Research Institute and Rangitira Services. He is currently the Vice 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 Chair of 2 Degrees Mobile and Chair of CoreLogic New Zealand. He has served on boards of the Hillary Commission for Sport and the Sport and Recreation Commission (SPARC), as well as being 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, having been 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.

*Jonathan Mayson was on an extended leave of absence from 1 March 2018 to 31 August 2018.

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 Financial Markets Authority's corporate governance Handbook 2018. For more information about corporate governance refer to the Corporate Governance Statement on our website.

PRINCIPLE 1

Ethical Standards

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 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

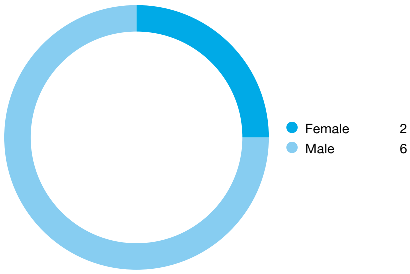
Board composition and performance

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.

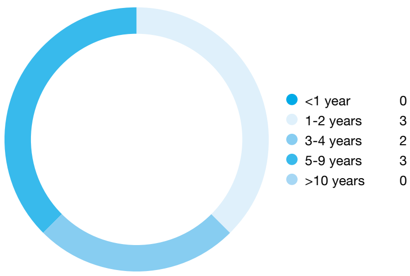
Our Board currently has eight Directors, all of whom are independent professional directors and none perform any management function. Our Board considers that, individually and collectively, the Directors have an appropriate mix of skills, qualifications and experience to enable them to discharge their duties effectively. No new Directors were appointed during the year. Newly appointed Directors undertake a formal induction programme. 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 and Executive are provided on pages 39-41, 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, please see page 36.

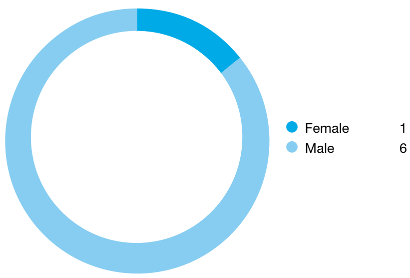
Board gender



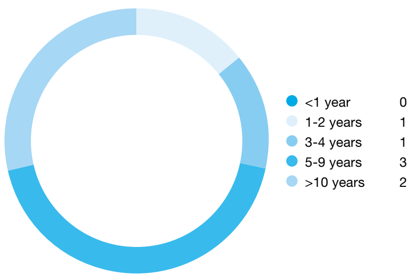
Board length of service



Executive team gender



Executive team length of service



No Directors resigned during the financial year.

In November 2017 we welcomed Siobhan McKenna as a 'Future Director' under the Institute of Directors in New Zealand's Future Directors programme. The programme, founded in 2013, is about developing the next generation of directors and delivering diversity, new talent and fresh perspectives at board level. Future Directors are not formally appointed to boards and as such hold no voting rights and do not contribute to the quorums. They are not part of the formal decision-making process but are there to observe and participate in discussions. Siobhan has a background in the media, digital and energy sectors and was founder and Chief Executive of MediaWorks Interactive.

> 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.

PRINCIPLE 3

Board committees

Our Board is supported by two committees, Audit Committee and 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

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 our financial, social and environmental performance within our half-yearly and annual reports.

PRINCIPLE 5

Remuneration

Our Board's remuneration is set by our shareholder. Total remuneration paid to our Directors for the year was $593,777. 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 2018 are set out in the table overleaf.

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 Chair of both Nexus Logistics Limited and CONLINXX Limited and is not an employee. Mr Hoddinott was appointed Director of Nexus Logistics on 28 November 2016 and CONLINXX on 20 September 2017. Mr Hoddinott was paid director fees totalling $52,500 for the year ending 30 June 2018.

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.

PORTS OF AUCKLAND STATUTORY EMPLOYEE REMUNERATION REPORT AS AT 30 JUNE 2018

Ports of Auckland paid remuneration in excess of $100,000 including benefits to 237 employees during the 2018 financial year in the following bands. Companies: BSL - Bunker Shipz Ltd, CON - Conlinxx Limited, CRP - Ports of Auckland, NXS - Nexus Logistics Limited.

SALARY BAND	CURRENT	REDUNDANCY/ SEVERANCE	RESIGNED	CURRENT & TERM
$100K > $110K	74		3	77
$110K > $120K	46		1	47
$120K > $130K	35		2	37
$130K > $140K	25			25
$140K > $150K	10		1	11
$150K > $160K	6			6
$160K > $170K	6			6
$170K > $180K	1			1
$180K > $190K	2			2
$190K > $200K	3	1		4
$200K > $210K	5			5
$210K > $220K	3			3
$220K > $230K	3			3
$230K > $240K	1	1		2
$240K > $250K	2			2
$250K > $260K	2			2
$260K > $270K	3	1		4
$270K > $280K	1			1
$300K > $310K	0	1		1
$310K > $320K	1			1
$320K > $330K	1			1
$330K > $340K	2			2
$340K > $350K	2			2
$370K > $380K	1			1
$450K > $460K	1			1
$880K > $890K	1			1
	237	4	7	248

PRINCIPLE 6

Risk management

We have a Risk Management Policy that 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 develop and protect our people, assets and 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 updating our Board on our automation projects with tours of the automated straddle testing area, the automated truck grid and the new Fergusson North Wharf.

DIRECTOR	ATTENDANCE AT BOARD MEETINGS	ATTENDANCE AT AUDIT COMMITTEE MEETINGS	ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS	TOTAL REMUNERATION PAID FOR THE YEAR	COMMENTS
Liz Coutts	11/11	5/6	2/2	$128,000	Appointed 20 December 2010 Board Chair Remuneration Committee Chair Audit Committee member
Rodger Fisher	11/11	6/6	2/2	$90,000	Appointed 5 December 2013 Deputy Board Chair Audit Committee member Remuneration Committee member
Sarah Haydon	11/11	6/6		$77,333	Appointed 1 August 2016 Audit Committee Chair
Andrew Bonner	10/11		2/2	$64,000	Appointed 14 December 2009 Remuneration Committee member
Pat Snedden	8/11			$64,000	Appointed 2 May 2012
Jon Mayson	4/7			$42,000	Appointed 1 October 2014 Extended leave of absence from 1 March 2018 to 31 August 2018
Karl Smith	9/11			$64,000	Appointed 1 October 2016
Bill Osborne	10/11			$64,000	Appointed 1 May 2017

PRINCIPLE 7

Auditors

Our external auditor is the Auditor-General, who appointed Bryce Henderson, a partner at Deloitte Limited, to carry out the audit of our financial statements and carry out a review of our half-year financial statements. Total fees paid to Deloitte Limited in its capacity as auditor for the financial year were $307,000. We did not procure any other services from Deloitte Limited for the year.

PRINCIPLE 8

Shareholder relations and stakeholder interests

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.

Deloitte.

Independent Auditor's Report

TO THE READERS OF PORTS OF AUCKLAND LIMITED GROUP'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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, Bryce Henderson, 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 48 to 90, that comprise the statement of financial position as at 30 June 2018, 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 2018; 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 24 September 2018. 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.

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 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 12 to 45, but does not include the 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.

The Group has received independent advisory services from an individual who also separately acts as a non-executive advisor to the Deloitte Board. For the avoidance of doubt these services were not provided in their capacity as a non-executive advisor to the Deloitte Board, and the individual is not part of the Deloitte firm structure involved in the conduct or oversight of any audits.

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

Bryce Henderson
Deloitte Limited
On behalf of the Auditor-General
Auckland, New Zealand

This audit report relates to the consolidated financial statements of Ports of Auckland Limited (the 'Company') for the year ended 30 June 2018 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 consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated 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 consolidated financial statements and related audit report dated 24 September 2018 to confirm the information included in the audited consolidated financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial **statements**

Income statement

FOR THE YEAR ENDED 30 JUNE 2018

	NOTES	2018 $'000	2017 $'000
Revenue	A1	**243,201**	**222,368**
Expenses			
Operating expenses	A2	(142,110)	(119,622)
Depreciation and amortisation	B1, B4	(22,991)	(23,867)
Finance costs	A2	(12,616)	(11,644)
Total expenses		**(177,717)**	**(155,133)**
Net (impairment) / reversal of impairment of assets	B1, H1	1,876	(1,621)
Fair value change to investment properties	B3	16,917	12,374
Loss on disposal of investment property held for sale		(1,159)	-
Impairment of investments	F1, F2	-	(5,451)
Share of profit from equity accounted investments	F1	2,418	(113)
Profit before income tax		**85,536**	**72,424**
Income tax expense	A3	(8,700)	(12,122)
Profit for the period attributable to the owners of the Parent		**76,836**	**60,302**

Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2018

	NOTES	2018 $'000	2017 $'000
Profit for the period		**76,836**	**60,302**
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	30,440	16,702
Items that will not be reclassified to the income statement		**30,440**	**16,702**
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges, net of tax	E1	5,078	2,330
Net change in fair value of equity securities	F3, E1	7,397	10,520
Items that may be reclassified subsequently to the income statement		**12,475**	**12,850**
Other comprehensive income net of income tax		**42,915**	**29,552**
Total comprehensive income for the period net of tax attributable to the owners of the Parent		**119,751**	**89,854**

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 2018

	NOTES	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	D1	1,301	812
Trade and other receivables	D2	34,269	32,086
Inventories	D3	4,130	3,116
Derivative financial instruments	G2	3,724	318
Non-current assets held for sale	H1	18,406	68,705
Total current assets		**61,830**	**105,037**
Non-current assets			
Property, plant and equipment	B1	936,744	821,021
Intangible assets	B4	44,293	23,937
Investment properties	B3	184,284	114,835
Equity securities	F3	43,149	35,752
Investments and advances	F1	2,815	2,935
Derivative financial instruments	G2	-	1,607
Total non-current assets		**1,211,285**	**1,000,087**
Total assets		**1,273,115**	**1,105,124**
Current liabilities			
Interest bearing liabilities	E3	7,594	6,202
Trade and other payables	D4	38,132	34,276
Tax payable		-	438
Provisions	D5	10,575	8,694
Derivative financial instruments	G2	1,328	5,325
Deferred income		21	23
Other current liabilities		2,960	-
Total current liabilities		**60,610**	**54,958**
Non-current liabilities			
Interest bearing liabilities	E3	377,354	291,713
Derivative financial instruments	G2	6,897	8,154
Provisions	D5	1,033	1,053
Deferred income		578	600
Deferred tax liabilities	A3	68,897	64,251
Total non-current liabilities		**454,759**	**365,771**
Total liabilities		**515,369**	**420,729**
Net assets		**757,746**	**684,395**
Equity			
Share capital		146,005	146,005
Reserves		251,632	208,717
Retained earnings		360,109	329,673
Total equity	E1	**757,746**	**684,395**

These financial statements were approved by the Board on 24 September 2018.

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 2018

	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP SHARE CAPITAL $'000	OTHER RESERVES $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2016		**146,005**	**179,165**	**316,811**	**641,981**
Profit for the period		-	-	60,302	60,302
Other comprehensive income	E1, B2	-	29,552	-	29,552
Total comprehensive income		**-**	**29,552**	**60,302**	**89,854**
Transactions with owners in their capacity as owners					
Dividends paid	E2	-	-	(53,667)	(53,667)
Tax benefit of losses received from owner	E1	-	-	6,227	6,227
Total other movements		**-**	**-**	**(47,440)**	**(47,440)**
Balance at 30 June 2017	E1	**146,005**	**208,717**	**329,673**	**684,395**
Profit for the period		-	-	76,836	76,836
Other comprehensive income	E1, B2	-	42,915	-	42,915
Total comprehensive income		**-**	**42,915**	**76,836**	**119,751**
Transactions with owners in their capacity as owners					
Dividends paid	E2	-	-	(49,860)	(49,860)
Tax benefit of losses received from owner	E1	-	-	3,460	3,460
Total other movements		**-**	**-**	**(46,400)**	**(46,400)**
Balance at 30 June 2018	E1	**146,005**	**251,632**	**360,109**	**757,746**

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 2018

	NOTES	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		278,384	250,905
Payments to suppliers and employees		(176,229)	(151,809)
Dividends received		3,649	3,481
Interest received		27	43
Interest paid		(12,911)	(11,584)
Income taxes paid		(6,648)	(3,800)
Net cash flows from operating activities		**86,272**	**87,236**
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired		-	298
Payments for investment property		(10,790)	(11,127)
Payments for intangible assets		(23,588)	(6,761)
Payments for property, plant and equipment		(93,424)	(70,454)
Interest paid – capitalised		(2,554)	(1,229)
Advances to related parties		(60)	(2,200)
Proceeds from sale of property, plant and equipment		2,051	455
Proceeds from sale of investment properties		4,821	15,285
Repayment of loans by related parties		229	200
Net cash flows from investing activities		**(123,315)**	**(75,533)**
Cash flows from financing activities			
Proceeds from borrowings		968,500	146,500
Repayment of borrowings		(882,500)	(101,500)
Dividends paid	E2	(49,860)	(53,667)
Net cash flows from financing activities		**36,140**	**(8,667)**
Net cash flows		**(903)**	**3,036**
Cash at the beginning of the year		(5,390)	(8,426)
Cash at the end of the year	D1	**(6,293)**	**(5,390)**

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

Statement of cash flows (continued)

FOR THE YEAR ENDED 30 JUNE 2018

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

	2018 $'000	2017 $'000
Profit for the period	**76,836**	**60,302**
Adjusted for:		
Depreciation and amortisation	22,991	23,867
Movements in borrowings allocated to interest paid	(359)	(54)
Tax benefit of losses received from owner	3,460	6,227
Movement in deferred revenue	(24)	(22)
Net (gain) / loss on sale of investment property	1,159	-
Net (gain) / loss on sale of investments	-	(9)
Net (gain) / loss on sale of other non-current assets	628	(1,188)
Fair value movements in land, buildings and wharves	(1,876)	1,621
Fair value adjustment to investment property	(16,917)	(12,374)
Impairment of investments	-	5,451
Change in operating assets and liabilities:		
Trade and other receivables	(2,183)	501
Trade and other payables	582	2,078
Income tax payable	(518)	1,193
Deferred tax liability	(1,662)	(208)
Other provisions	1,861	1,556
Other operating assets	(1,012)	681
Movement in associates and joint ventures	(48)	(2,797)
Capital items included in working capital movements	3,354	411
Net cash flows from operating activities	**86,272**	**87,236**

Reconciliation of liabilities arising from financing activities to cash flows

	2018 $'000	2017 $'000
Interest bearing liabilities		
Opening interest bearing liabilities (excluding overdraft)	291,713	246,767
less establishment fees (classified as interest paid under operating activities)	(359)	(54)
Cash movements		
Repayment of bank debt	(882,500)	(101,500)
Proceeds from borrowing	968,500	146,500
Closing interest bearing liabilities (excluding overdraft)	**377,354**	**291,713**

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 2018

REPORTING ENTITY AND NATURE OF OPERATIONS

The financial statements presented are those of Ports of Auckland Limited (the Company) and its subsidiaries (Ports of Auckland Group, or the Group).

The Company operates Auckland's main seaport on the Waitematā Harbour, and a small regional port at Onehunga on the Manukau 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 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 profit orientated entities, and also comply with International Financial Reporting Standards.

The financial statements were approved by the Board of Directors on 24 September 2018.

BASIS OF MEASUREMENT

The 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 consolidated 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 are coming into effect from 1 July 2018.

NZ IFRS 15 Revenue from Contracts with Customers

The Group will transition to this standard using the modified retrospective approach with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings on 1 July 2018.

This standard replaces the current guidance on revenue recognition. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2018

In order to assess the implications of this new standard a transition project has been formed, which has held discussions with management, documented the performance obligations and their timing, and obtained an assessment from external advisors. The Group do not expect to apply any practical expedients on application of the new standard. The transition project is ongoing, however the Group do not foresee any material changes to the current accounting treatment.

NZ IFRS 9 Financial Instruments

There are three key changes on application of this standard:

Change in classification of the Groups equity instruments from available for sale to fair value through other comprehensive income.

Hedge accounting, of which the Group expects no change in current accounting treatment, however there will be enhanced disclosures.

Expected credit losses to be based on forward looking estimates. The Group has a trade receivable provision, which will be immaterially effected by this standard. Going forward, the joint venture and associate advances will be assessed for expected credit losses under the provisions of NZ IFRS 9, however, there is no expectation any provision will be raised as the Group believes recovery strategies would fully recover the outstanding balance, over a period of time, and the effective interest rate is nil.

The Group intends to apply the new rules retrospectively and will not restate the 2018 comparatives.

The following standard comes into effect 1 July 2019.

NZ IFRS 16 Leases

The Group will transition to this standard using the modified retrospective approach with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings on 1 July 2019.

The standard introduces a single lessee accounting model which requires the lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group is currently in the process of quantifying the impact of the standard, the Company is lessee of land and a subsidiary has a fleet of trucks which are in the process of being quantified. The Group is in the process of assessing its lease contracts to determine the required adjustments, and is not yet able to quantify the impact.

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. Revenue

	2018 $'000	2017 $'000
Revenue		
Port operations income	236,609	214,585
Rental income	5,248	5,382
Gain on disposal of property, plant and equipment	38	1,194
Gain on disposal of investment	-	9
Dividend income	1,279	1,155
Interest income	27	43
Total revenue	**243,201**	**222,368**

RECOGNITION AND MEASUREMENT

Revenue

Revenue comprises the fair value for the sale of 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.

A2. Expenses

Operating Expenses	2018 $'000	2017 $'000
Employee benefit expenses		
Salaries and wages	68,197	58,573
Restructuring costs	529	228
Pension costs	2,221	2,054
Total employee benefit expenses	**70,947**	**60,855**
Other operating expenses		
Contracted services	30,357	21,502
Repairs and maintenance	18,632	17,090
Fuel and power	5,145	4,489
Loss on disposal of property, plant and equipment – refer note B1	666	5
Other expenses	16,056	15,321
Auditor's fees		
Audit and review of statutory financial statements	307	281
Analytical services	-	79
Total other operating expenses	**71,163**	**58,767**
Total operating expenses	**142,110**	**119,622**

Finance costs	2018 $'000	2017 $'000
Interest and finance costs	15,170	12,873
Capitalised interest	(2,554)	**(1,229)**
Total finance costs	**12,616**	**11,644**

Directors fees for the year are $645,833 (2017: $545,000) and are recognised within employee benefit expenses. Donation expenses are $70,900 (2017: $57,000) 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 and amortisation of costs incurred in connection with borrowings facilities. 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.

A3. Taxation

Income statement	2018 $'000	2017 $'000
Current income tax		
Current year	9,601	12,048
Adjustment for prior years	366	282
Deferred income tax		
Temporary differences	(1,213)	(50)
Adjustment for prior years	(54)	(158)
Income tax expense	**8,700**	**12,122**
Statement of changes in equity		
Cash flow hedges and property, plant and equipment	5,913	907
Income tax reported in equity	**5,913**	**907**

Reconciliation of effective tax rate	2018 $'000	2017 $'000
Profit before income tax	85,536	72,424
Tax at 28%	23,950	20,279
Adjustments		
Non-taxable income	(6,236)	(3,467)
Non-deductible expenses	1,591	2,624
Adjustment for prior years	313	124
Loss offset utilisation	(7,979)	(6,767)
Dividend imputation credits	(1,419)	(1,354)
Sundry items	(1,520)	683
Income tax expense	**8,700**	**12,122**

Ports of Auckland Limited will utilise losses from the Auckland Council Tax Group in the 2018 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. $6,552,000 (2017: $6,174,000) has been provided for payment to Watercare Services Limited for this subvention agreement.

Imputation credits	2018 $'000	2017 $'000
Imputation credits available for subsequent reporting periods	71,461	70,234

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	TOTAL $'000
Balance at 1 July 2016	**(4,141)**	**65,356**	**1,166**	**2,055**	**(3,085)**	**2,201**	**63,552**
Recognised in income statement	-	(1,262)	1,348	699	(965)	(28)	(208)
Recognised in other comprehensive income	907	-	-	-	-	-	907
Balance at 30 June 2017	**(3,234)**	**64,094**	**2,514**	**2,754**	**(4,050)**	**2,173**	**64,251**
Recognised in income statement	-	92	(494)	78	(917)	(26)	(1,267)
Recognised in other comprehensive income	1,974	3,939	-	-	-	-	5,913
Balance at 30 June 2018	**(1,260)**	**68,125**	**2,020**	**2,832**	**(4,967)**	**2,147**	**68,897**

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 2016	**309,068**	**255,613**	**26,278**	**90,729**	**60,159**	**11,031**	**752,878**
Movement							
Additions	-	38,922	85	23,334	317	8,693	71,351
Acquisitions	-	-	297	-	-	2	299
Disposals	-	-	-	(4)	-	(1)	(5)
Revaluations – Reserves	16,702	-	-	-	-	-	16,702
Revaluations – Income Statement	563	-	-	-	-	-	563
Depreciation charge	-	(3,730)	(712)	(12,379)	(1,386)	(2,560)	(20,767)
Movement to 30 June 2017	17,265	35,192	(330)	10,951	(1,069)	6,134	68,143
Balances							
Cost and/or fair value	326,333	232,797	26,850	231,634	73,829	45,227	936,670
Work in progress at cost	-	61,827	32	27,645	103	4,949	94,556
Accumulated depreciation	-	(3,819)	(934)	(157,599)	(14,842)	(33,011)	(210,205)
Net book value at 30 June 2017	**326,333**	**290,805**	**25,948**	**101,680**	**59,090**	**17,165**	**821,021**
Movement							
Additions	-	9,342	2,669	61,444	16,233	6,816	96,504
Disposals	-	-	(197)	(14)	(16)	(9)	(236)
Revaluations – Reserves	13,624	19,469	1,286	-	-	-	34,379
Revaluations – Income Statement	(672)	441	(77)	-	-	-	(308)
Assets held for sale	-	-	-	-	-	(12)	(12)
Reclassifications / Transfers	3,064	-	175	128	1,500	51	4,918
Depreciation charge	-	(3,914)	(716)	(10,609)	(1,338)	(2,945)	(19,522)
Movement to 30 June 2018	16,016	25,338	3,140	50,949	16,379	3,901	115,723
Balances							
Cost and/or fair value	342,349	306,436	27,007	226,686	75,987	46,482	1,024,947
Work in progress at cost	-	9,909	2,374	82,703	15,344	9,845	120,175
Accumulated depreciation	-	(202)	(293)	(156,760)	(15,862)	(35,261)	(208,378)
Net book value at 30 June 2018	**342,349**	**316,143**	**29,088**	**152,629**	**75,469**	**21,066**	**936,744**

Property, plant and equipment additions include capitalised finance costs of $2,554,461 (2017: $1,229,329). The average effective interest rate used is 3.1% (2017: 3.2%).

Reclassifications / transfers in the current financial year of $4,918,000 represent a net transfer from investment property to pavement and other operational assets. Refer to note B3.

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 2018, all land was revalued as at 30 June 2018 in accordance with the New Zealand Institute of Valuers asset valuation standards. The valuation of land was undertaken by NAI Harcourt, registered valuers.

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.

FREEHOLD LAND VALUATION

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).

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

		2018	2017
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 allotments of 2,300 sqm over a 30 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	$5,075 per sqm, for a 2,300 sqm allotment	$4,875 per sqm, for a 2,300 sqm allotment
	Site development costs have been estimated based on work undertaken by Beca Group, Engineering Consultants	Beca Group development costs updated for 2018 rates	Beca Group historic data for development costs as adjusted for cost escalation based on "Producers Price Index – Construction Sector"
	Discount rate	12.85%	12.75%
	Sales price escalation	Range 1.00% to 3.50% over the term	Range 2.00% to 5.00% over the term
	Cost escalation	Range 2.55% to 3.00% over the term	Range 2.55% to 3.00% over the term

The sensitivity table below is related to the valuation of the Port Operations Land – Discounted Cash Flow Valuation and shows the impact of changes in the discount rate and the land sales price on the valuation.

DISCOUNT RATE CHANGE	CHANGE IN LAND SALES PRICE				
	-10.00%	-5.00%	0.00%	5.00%	10.00%
12.80%	(42,705)	(20,347)	2,011	20,085	46,728
12.85%	(44,511)	(22,256)	-	18,023	44,511
12.90%	(46,305)	(24,151)	(1,997)	15,976	42,311

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

		2018	2017
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	$3,000 per sqm to $6,000 per sqm	$2,900 per sqm to $4,500 per sqm
Capitalised market income model	Market capitalisation rate	6.25% to 7.25%	6.25% to 8.75%

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.

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:

		2018
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

	2018 $'000	2017 $'000
At fair value		
Balance at 1 July	**114,835**	**149,105**
Capitalised subsequent expenditure	10,850	10,753
Disposals	-	(4,902)
Reclassifications / Transfers	(4,918)	-
Transfers from / (to) assets held for sale	46,600	(52,495)
Net gain / (loss) from fair value adjustment	16,917	12,374
Balance at 30 June	**184,284**	**114,835**

Non-current assets held for sale of $46,600,000 have been reclassified as Investment Property following the suspension of the East/West motorway link by the Government. NZTA had previously sought to acquire the site to facilitate this development. Prior year assets held for sale also included Gabador property which was sold during the current financial year.

Reclassifications / transfers in the financial year of $4,918,000 represent a net transfer from investment property to property, plant and equipment. This arose due to change in use of the site, which is now operated by the Company's wholly owned subsidiary Conlinxx Ltd.

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 investment properties 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.

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 2018 and 30 June 2017 were performed by Seagar & Partners (Auckland) Limited and 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:

		2018	2017
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	4.50% to 6.75%	5.50% to 6.50%
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	$190 per sqm to $530 per sqm	$190 per sqm to $550 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 2016	**18,994**	**18,994**
Movement		
Additions	7,121	7,121
Acquisitions	922	922
Amortisation charge	(3,100)	(3,100)
Movement to 30 June 2017	4,943	4,943
Balances		
Cost	33,602	33,602
Work in progress at cost	6,840	6,840
Accumulated amortisation and impairment	(16,505)	(16,505)
Net book value at 30 June 2017	**23,937**	**23,937**
Movement		
Additions	23,825	23,825
Amortisation charge	(3,469)	(3,469)
Movement to 30 June 2018	20,356	20,356
Balances		
Cost	34,343	34,343
Work in progress at cost	29,924	29,924
Accumulated amortisation and impairment	(19,974)	(19,974)
Net book value at 30 June 2018	**44,293**	**44,293**

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 10 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.

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 on-going 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).

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 management's best estimate of the losses to be provided by Auckland Council (refer to note A3).

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

	2018 $'000	2017 $'000
Cash and cash equivalents		
Cash on hand	1	1
Bank balances	1,300	811
Total cash and cash equivalents	1,301	812
Interest Bearing Liabilities		
Bank overdrafts – refer to note E3	(7,594)	(6,202)
Total cash as per statement of cash flows	**(6,293)**	**(5,390)**

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% (2017: 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

	2018 $'000	2017 $'000
Trade receivables		
Trade receivables	31,518	30,227
Related party receivables	45	50
Sundry receivables	843	122
Provision for impairment of trade receivables	(131)	(199)
Net trade receivables	32,275	30,200
Other receivables		
Prepayments	1,994	1,886
Total trade and other receivables	**34,269**	**32,086**

The aging of trade receivables at reporting date was:

	2018 $'000	2017 $'000
Aged receivables		
Current	22,083	20,080
30 days	7,995	7,419
60 days	1,174	1,970
90 days	137	447
Over 90 days	174	361
Total aged receivables	**31,563**	**30,277**

As at 30 June 2018 current trade receivables of the Group with a value of $59,100 (2017: $96,700) were written off.

Trade receivables of $9,424,000 (2017: $9,257,000) were past due but not impaired as at 30 June 2018. 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.

The average credit period for trade receivables at 30 June 2018 is 45.95 days (2017: 47.12 days).

RECOGNITION AND MEASUREMENT

Trade receivables

Trade receivables are recognised at fair value, less provision for doubtful debts.

Trade receivables are generally on terms 7 to 30 days.

Impairment of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis and an impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due from its customers. Objective evidence of impairment includes financial difficulties of the customer, the probability that the customer will enter bankruptcy or financial reorganisation and default or delinquency in payments. When a trade receivable is considered uncollectable, it is written off against the provision.

The carrying amount of the trade receivables is reduced through the use of the provision for impairment of 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.

D3. Inventories

	2018 $'000	2017 $'000
Inventories		
Inventories at cost	3,988	2,977
Net realisable value reclassification	142	139
Total inventories	**4,130**	**3,116**

The cost of inventories recognised as an expense during the year was $7,677,000 (2017: $7,810,000).

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

	2018 $'000	2017 $'000
Trade payables	18,213	16,545
Related party payables	6,668	6,305
Accruals	13,251	11,426
Total trade and other payables	**38,132**	**34,276**

RECOGNITION AND MEASUREMENT

Trade and other payables

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

	2018 $'000	2017 $'000
Current		
Employee benefits	9,568	7,661
ACC partnership programme	223	249
Other provisions	784	784
Total current provisions	10,575	8,694
Non-current		
Employee benefits	1,033	1,053
Total non-current provisions	1,033	1,053
Total provisions	**11,608**	**9,747**

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.

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 on-going 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 2018. 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 2018 produced a value for the ACC reserve of $222,500 (2017: $248,900). Pre valuation date claim inflation has been taken as 50% (2017: 50%) of movements in the CPI and 50% (2017: 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 January 2018.

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	2018 SHARES	2017 SHARES	2018 $'000	2017 $'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 2018, there were 156,005,192 (2017: 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 1 July 2016	**(10,648)**	**182,005**	**7,808**	**316,811**	**495,976**
Profit for the period	-	-	-	60,302	60,302
Dividends	-	-	-	(53,667)	(53,667)
Revaluations	-	16,702	-	-	16,702
Changes in fair value of cash flow hedges	36	-	-	-	36
Transfer to profit / (loss)	3,200	-	-	-	3,200
Changes in fair value of investments	-	-	10,520	-	10,520
Deferred tax	(906)	-	-	-	(906)
Tax benefit of losses received from owner	-	-	-	6,227	6,227
Balance at 30 June 2017	**(8,318)**	**198,707**	**18,328**	**329,673**	**538,390**
Profit for the period	-	-	-	76,836	76,836
Dividends	-	-	-	(49,860)	(49,860)
Revaluations	-	34,379	-	-	34,379
Changes in fair value of cash flow hedges	3,248	-	-	-	3,248
Transfer to profit / (loss)	3,804	-	-	-	3,804
Changes in fair value of investments	-	-	7,397	-	7,397
Deferred tax	(1,974)	(3,939)	-	-	(5,913)
Tax benefit of losses received from owner	-	-	-	3,460	3,460
Balance at 30 June 2018	**(3,240)**	**229,147**	**25,725**	**360,109**	**611,741**

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	2018 $'000	2017 $'000
2016 Final dividend	19.46	-	28,413
2017 Interim dividend	17.30	-	25,254
2017 Final dividend	17.87	26,092	-
2018 Interim dividend	16.28	23,768	-
Total dividends paid		**49,860**	**53,667**

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. Interest bearing liabilities

	2018			2017		
	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000
Current						
Unsecured						
Bank overdraft – refer note D1	10,000	7,594	2,406	10,000	6,202	3,798
Total current interest bearing liabilities	10,000	7,594	2,406	10,000	6,202	3,798
Non-Current						
Unsecured						
Other bank loans	420,000	207,885	212,000	540,000	291,713	248,000
Fixed rate notes	170,000	169,469	-	-	-	-
Total non-current interest bearing liabilities	590,000	377,354	212,000	540,000	291,713	248,000
Total interest bearing liabilities	**600,000**	**384,948**	**214,406**	**550,000**	**297,915**	**251,798**

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.

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, Commonwealth Bank of Australia and Bank of Tokyo Mitsubishi UFJ, Ltd. The duration period of the revolving advances facility at commencement ranged from two to five years.

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, 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 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%) (refer to note G1). There have been no breaches of this negative pledge during the financial year.

The interest rate is based on BKBM (bank bill bid settlement) rate plus a margin range of 0.65% to 0.91% per annum (2017: 0.55% to 0.77% per annum). The Group generally borrows funds on a 90 days term (2017: 90 days term).

Fixed rate notes

On the 21st June 2018, Ports of Auckland Ltd, received long term funding in the form of unsecured notes, via three fixed rate tranches with terms of 10, 12 and 15 years, and 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 and advances

	INVESTMENT IN JOINT VENTURES $'000	INVESTMENT IN ASSOCIATES $'000	ADVANCES TO JOINT VENTURES $'000	ADVANCES TO ASSOCIATES $'000	TOTAL $'000
Balance at 1 July 2016	**2,581**	**4**	**2,697**	**710**	**5,992**
Share of profits after income tax	38	-	(151)	-	(113)
Dividends received	(2,326)	-	-	-	(2,326)
Impairment	-	-	(2,618)	-	(2,618)
Movement in advances	-	-	1,700	300	2,000
Balance at 30 June 2017	**293**	**4**	**1,628**	**1,010**	**2,935**
Share of profits after income tax	2,418	-	-	-	2,418
Dividends received	(2,370)	-	-	-	(2,370)
Movement in advances	-	-	(228)	60	(168)
Balance at 30 June 2018	**341**	**4**	**1,400**	**1,070**	**2,815**

In the prior year, there was an impairment of advances to joint ventures of $2,618,000 relating to fair value adjustments to the carrying values held in Nexus Logistics Limited immediately prior to the acquisition of the remaining 50% of its shares (refer to note F2). The disclosed value of all investments and advances approximates their fair values.

The shareholder advance to North Tugz Limited and PortConnect Limited are non-interest bearing. The advances are repayable on demand.

The shareholder advance to Longburn Intermodal Freight Hub Limited is non-interest bearing. The advance is repayable on demand.

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 recognised at fair value, less any provision for doubtful debts.

F2. Related parties

SUBSIDIARIES	PLACE OF BUSINESS	CLASS OF SHARES	EQUITY HOLDING 2018 %	EQUITY HOLDING 2017 %
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 2018 %	EQUITY HOLDING 2017 %
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 2018 $'000	AGGREGATE BALANCE 2017 $'000
Assets and liabilities		
Current assets	4,573	4,182
Non-current assets	31,279	32,272
Total assets	35,852	36,454
Current liabilities	3,183	6,036
Non-current liabilities	18,137	12,875
Total liabilities	21,320	18,911
Net assets	**14,532**	**17,543**
Results		
Revenue	14,467	13,843
Expenses	(9,759)	(9,263)
Net profit after tax	4,708	4,580
Total comprehensive income	**4,708**	**4,580**

The associates and joint ventures had contingent liabilities of $nil as at 30 June 2018 (2017: $nil). Capital commitments as at 30 June 2018 are $88,000 (2017: $nil).

RELATED PARTY OUTSTANDING BALANCES

	2018 $'000	2017 $'000
Current receivables		
Auckland Council Group	24	23
Associates and joint ventures	21	27
Total current receivables	**45**	**50**
Non-current receivables		
Associates and joint ventures	2,470	2,638
Total non-current receivables	**2,470**	**2,638**
Current payables		
Auckland Council Group	6,631	6,269
Associates and joint ventures	37	36
Total current payables	**6,668**	**6,305**

In the prior year, current receivables from associates and joint ventures was impaired by $2,618,000 to the estimated realisable value owing by Nexus Logistics Limited immediately prior to the acquisition of the remaining 50% of its shares.

In the current year, no provisions for impairment of receivables 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

	2018 $'000	2017 $'000
Auckland Council Group		
Services provided by the Group	361	422
Services provided to the Group	2,107	2,201
Net dividend paid to ACIL	49,860	53,667
Subvention payment to Watercare Services Ltd for tax losses	6,671	3,903
Tax losses gifted by Auckland Council to the Group	3,460	6,227
Associates and joint ventures		
Services provided by the Group	168	3,174
Services provided to the Group	435	2,608
Net dividends received	2,370	2,326
Advances	60	3,351
Advance repayments	228	1,250
Advance impairment	-	2,870

KEY MANAGEMENT PERSONNEL COMPENSATION

	2018 $'000	2017 $'000
Directors' fees	646	545
Salaries and other short term employee benefits	3,341	3,134
Termination costs	-	-
Total key management compensation	**3,987**	**3,679**

F2. Related parties (continued)

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.

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 IAS 39 Financial Instruments: Recognition and Measurement 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 consolidated 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 Investments Limited (Parent), Auckland Council, 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 Ltd 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 Ltd from associates and joint ventures are made up of port operating costs. The services provided by Ports of Auckland Ltd to associates and joint ventures include lease arrangements for property, management fees and port charges.

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

Ports of Auckland Ltd 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 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 fees or salaries.

F3. Equity securities

	2018 $'000	2017 $'000
Balance at 1 July	35,752	25,232
Movements through reserves	7,397	10,520
Balance at 30 June	**43,149**	**35,752**

Equity securities represent an investment holding of 19.9% in Marsden Maritime Holdings Limited, that offer the Group the opportunity for return 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

Investments and other financial assets

On initial recognition, the Group classified its equity securities as available-for-sale.

The gains or losses on the equity securities are recognised in other comprehensive income, except for any impairment losses. If the equity securities are derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment. Dividends on available-for-sale 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 **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.

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 impairments losses, represents the Group's maximum exposure to credit risk.

The Group's credit risk is also attributable to trade receivables which comprise of a large number of customers, spread across diverse industries. The Group has a policy that manages exposure to credit risk by way of customers who wish trade on credit terms are subject to 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 66% (2017: 60%) of trade receivables at balance date is reflected by the Group's 10 largest customers. At balance date approximately 21% (2017: 13%) 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.

G1. Financial risk management (continued)

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 2017							
Trade and other payables	34,276	-	-	-	-	34,276	34,276
Borrowings	10,351	3,902	125,944	173,957	-	314,154	297,915
Total non-derivative liabilities	44,627	3,902	125,944	173,957	-	348,430	332,191
Balance at 30 June 2018							
Trade and other payables	38,132	-	-	-	-	38,132	38,132
Borrowings	15,128	7,174	67,816	181,897	233,419	505,434	384,948
Total non-derivative liabilities	**53,260**	**7,174**	**67,816**	**181,897**	**233,419**	**543,566**	**423,080**

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 2017							
Interest rate swaps (net settled)	1,799	1,624	2,725	2,620	(172)	8,596	8,343
Forward exchange contracts							
Inflows	(46,140)	-	-	-	-	(46,140)	
Outflows	51,304	-	-	-	-	51,304	
Net forward exchange contracts	5,164	-	-	-	-	5,164	5,135
Total derivative liabilities	6,963	1,624	2,725	2,620	(172)	13,760	13,478
Balance at 30 June 2018							
Interest rate swaps (net settled)	1,820	1,752	2,645	2,186	(322)	8,081	7,863
Forward exchange contracts							
Inflows	(15,125)	-	-	-	-	(15,125)	
Outflows	15,489	-	-	-	-	15,489	
Net forward exchange contracts	364	-	-	-	-	364	362
Total derivative liabilities	**2,184**	**1,752**	**2,645**	**2,186**	**(322)**	**8,445**	**8,225**

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 on-going 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.

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

		30 JUNE 2018		30 JUNE 2017
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Bank overdrafts and bank loans	2.8%	215,594	2.7%	298,202
Interest-rate swaps – notional value	4.2%	180,000	4.3%	185,000

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.

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.

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	1,301	812
Equity securities	43,149	35,752
Total financial assets	**44,450**	**36,564**
Designated in hedge relationship		
Derivative financial assets		
Interest rate swaps	-	525
Forward exchange contracts	3,724	1,400
Derivative financial liabilities		
Interest rate swaps	7,863	8,344
Forward exchange contracts	362	5,135
Total designated in hedge relationship	**4,501**	**11,554**
Financial liabilities		
Interest bearing liabilities	384,948	297,915
Total financial liabilities	**384,948**	**297,915**

G1. Financial risk management (continued)

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:

	2018		2017	
	PROFIT BEFORE TAX $'000	EQUITY $'000	PROFIT BEFORE TAX $'000	EQUITY $'000
Interest rate risk				
25 basis point increase (2017: 25 basis points)	(111)	1,347	(343)	1,532
25 basis point decrease (2017: 25 basis points)	111	(1,388)	343	(1,591)
Foreign exchange risk				
10% increase in value of NZ dollar	-	(5,113)	-	(8,368)
10% decrease in value of NZ dollar	-	6,250	-	10,228
Equity price risk				
10% increase in equity prices	-	4,315	-	3,575
10% decrease in equity prices	-	(4,315)	-	(3,575)

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 trading securities or 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.

Transfer in the fair value hierarchy is disclosed in note B2, and 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	2018 $'000	2017 $'000
Equity securities	1	43,149	35,752
Derivative financial assets			
Interest rate swaps	2	-	525
Foreign exchange contracts	2	3,724	1,400
Total derivative financial assets		**3,724**	**1,925**
Derivative financial liabilities			
Interest rate swaps	2	7,863	8,344
Foreign exchange contracts	2	362	5,135
Total derivative financial liabilities		**8,225**	**13,479**
Non-financial assets			
Investment properties	3	184,284	114,835
Land	3	342,349	326,333
Buildings	3	29,088	25,948
Wharves	3	316,143	290,805
Total non-financial assets		**871,864**	**757,921**

FINANCIAL INSTRUMENTS

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables (excluding prepayments), advances, 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:

	2018			2017		
	CARRIED AT COST OR AMORTISED COST $'000	CARRIED AT FAIR VALUE $'000	AVAILABLE-FOR-SALE $'000	CARRIED AT COST OR AMORTISED COST $'000	CARRIED AT FAIR VALUE $'000	AVAILABLE-FOR-SALE $'000
Financial assets						
Cash and cash equivalents	1,301	-	-	812	-	-
Trade receivables	32,275	-	-	30,200	-	-
Joint venture and associate advances	2,470	-	-	2,638	-	-
Equity securities	-	-	43,149	-	-	35,752
Designated in a hedge relationship						
Derivative financial assets	-	3,724	-	-	1,925	-
Derivative financial liabilities	-	(8,225)	-	-	(13,479)	-
Financial liabilities						
Trade and other payables	(38,212)	-	-	(34,276)	-	-
Interest bearing liabilities	(384,948)	-	-	(297,915)	-	-

The fair value of financial liabilities held at amortised cost are detailed below. This excludes bank debt, which is floating rate 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
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	57,819	55,825	55,825	**169,469**
Fair value	58,936	57,035	57,214	**173,185**

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

G1. Financial risk management (continued)

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 2018 is 34% (2017: 30%).

G2. Derivative financial instruments

	2018 $'000	2017 $'000
Current assets		
Forward foreign exchange contracts	3,724	318
Total current derivative assets	3,724	318
Non-current assets		
Forward foreign exchange contracts	-	1,082
Interest rate swaps	-	525
Total non-current derivative assets	-	**1,607**
Total derivative assets	**3,724**	**1,925**
Current liabilities		
Forward foreign exchange contracts	362	5,135
Interest rate swaps	966	190
Total current derivative liabilities	1,328	5,325
Non-current liabilities		
Interest rate swaps	6,897	8,154
Total non-current derivative liabilities	6,897	8,154
Total derivative liabilities	**8,225**	**13,479**

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

	2018 $'000	2017 $'000
Less than 1 year	40,000	15,000
1 - 2 years	10,000	40,000
2 - 3 years	40,000	10,000
3 - 4 years	40,000	40,000
4 - 5 years	-	40,000
Greater than 5 years	50,000	40,000
Total	**180,000**	185,000

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 IFRS13 '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 inancial 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 on-going 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 plant, property 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 2.81% (2017: 2.70%). 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 45% (2017: 55%) 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% (2017: 2.85% and 5.79%) and the maturity dates range between 21 June 2019 and 21 June 2026.

During the current financial year two new interest rate swap contracts were put in place with start dates 30 November 2017 and 21 December 2017. This equates to 13.9% of the total notional principal amount.

The contacts 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 2018, the Group had outstanding forward exchange contracts equivalent to $53,250,720 (2017: $97,125,468) for three quay cranes and intelligent terminals.

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. Non-current assets held for sale

	2018 $'000	2017 $'000
Land	7,770	7,770
Buildings, Wharves and Improvements	10,636	8,440
Investment Properties – Land	-	52,495
Balance at 30 June	**18,406**	**68,705**

Ports of Auckland Ltd have entered into a sale and purchase agreement with Auckland Council, for the acquisition of the Port of Onehunga. The new owners take possession on the 1st October 2018.

Buildings, wharves and improvements were impaired in prior year by $2,184,000. In the current year, following valuation, this impairment has been written back.

In the prior year, assets held for sale also included the Pikes Point property of $46,600,000, which has since been reclassified back to Investment Property, refer to B3. The Gabador place property has been sold.

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.

H2. Capital commitments

	2018 $'000	2017 $'000
Property, plant and equipment		
Intelligent terminals	32,593	45,822
Cranes for Fergusson North berth	20,937	-
Crane upgrades	1,321	-
Property, plant and equipment	1,299	2,146
Northern berth	-	2,230
Northern berth dredging (stage 1)	-	1,500
Tug berth	-	136
Total property, plant and equipment	**56,150**	**51,834**
Intangible assets		
Software to quay cranes	126	-
Total intangible assets	**126**	-
Investment properties		
Waikato Freight Hub	14,328	1,088
Total investment properties	14,328	1,088
Total capital commitments	**70,604**	**52,922**

Capital commitments for property, plant and equipment include:

- The intelligent terminals project enabling the partial automation of the Fergusson container terminal. Remaining forecast spend of $55.2 million of which $32.6 million is committed at reporting date.
- Three quay cranes for the northern berth. Remaining forecast spend of $28.0 million, of which $20.9 million is committed at reporting date.
- Supply chain investment at the Waikato Freight Hub. Remaining forecast spend of $38.2 million of which $14.3 million is committed at reporting date.

H3. Lease commitments

	2018 $'000	2017 $'000
Operating lease commitments: Group as lessee (i)		
Within one year	962	961
Greater than one year but not more than five years	1,067	2,026
Total operating lease commitments	**2,029**	**2,987**
Operating lease commitments: Group as lessor (ii)		
Within one year	7,947	7,381
Greater than one year but not more than five years	32,590	27,276
More than five years	32,124	39,906
Total operating lease commitments	**72,661**	**74,563**

(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 re-negotiated.

(ii) The majority of operating leases relate to investment property owned by the Group with lease terms between one 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 one to 25 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

H3. Lease commitments (continued)

RECOGNITION AND MEASUREMENT

Lease 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 statement 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.

H4. Contingencies

Contingent liabilities

The Group had $nil contingent liabilities at 30 June 2018 (2017: $nil).

Ports of Auckland Limited has a performance bond of $810,000 (2017: $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 10 to 15 year time horizon.

H5. Events occurring after the reporting period

On July 2 Auckland Council Investments Limited (ACIL) transferred its holding of Ports of Auckland shares to Auckland Council. Ports of Auckland thus becoming a direct subsidiary of Auckland Council at this date.

On 17 August 2018, subsequent to year end the Board of Directors resolved to pay an unimputed dividend of 18.7 cents per ordinary share, a total of $27,303,000. The dividend will be paid on 31 August 2018.

H6. Standards and interpretations in issue not yet adopted

Standards, interpretations and amendments to published standards that are not yet effective:

NZ IFRS 9 (2014) 'Financial Instruments'

Effective for reporting periods beginning on or after 1 January 2018.

NZ IFRS 15 'Revenue from Contracts with Customers'

Effective for reporting periods beginning on or after 1 January 2018.

NZ IFRS 16 Leases

Effective for reporting periods beginning on or after 1 January 2019.

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

Effective for reporting periods beginning on or after 1 January 2020.

Amendments to NZ IAS 40 Transfer of Investment Property

Effective for reporting periods beginning on or after 1 January 2018.

Get in **touch**

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