Investing in the future

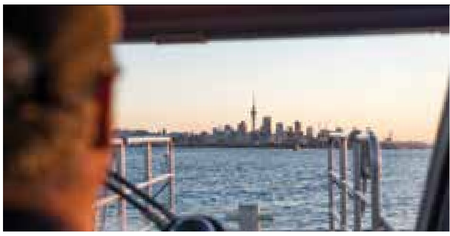
2019 ANNUAL REPORT

PORTS OF AUCKLAND
TĀMAKI HERENGA WAKA

Our transformation journey

Behind Ports of Auckland's red fence, our people have quietly been delivering an amazing amount of change. We have achieved a number of world and New Zealand 'firsts'. We continue to adapt to meet the demands of a growing Auckland and regional New Zealand, while also being a sustainable business. We are investing in new technology and our people to ensure we are a world-class port company. This year's report provides a look at some of our key transformation projects.

Contents



Highlights of the year

World-first electric tug ordered

STILL ON TRACK TO BE NEW ZEALAND'S FIRST AUTOMATED CONTAINER TERMINAL

HYDROGEN ENERGY PILOT PROJECT UNDERWAY

CONTAINERS MOVED BY RAIL
▲ 17.5%
107,755

CARS
▼ 14.3%
255,252

TEU
▼ 3.5%
939,680

Three new cranes delivered

CRUISE SHIP PASSENGERS

▲ 21.3%

330,088

Welcome to Ports of Auckland's 2019 Annual Report

Our approach to integrated reporting

This report welcomes readers to see what goes on behind the red fence at Ports of Auckland. We have achieved a lot during the year, including a number of world and New Zealand firsts. We continue to adapt to meet the demands of a growing Auckland and regional New Zealand, while also being a sustainable business. We are investing in new technology and our people to ensure we are a world-class port company.

This year we have continued 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 Integrated Reporting Framework of the International Integrated Reporting Council. It extends beyond financial reporting to include our social and environmental performance and reflect our integrated thinking. We have also considered the Global Reporting Initiative standard and approach to materiality, alongside the Integrated Reporting 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 Annual Reports are produced and published each year; this one covers the period 1 July 2018 to 30 June 2019. 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. We outline our materiality process on page 13. Topics are deemed material if they have the potential to substantively affect our ability to create and protect value for the port and our stakeholders in the short, medium and long terms. In the past year we have continued our focus on engaging more openly and transparently with our stakeholders, including the community and local iwi.

Assurance

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

The Group Financial Statements are included on pages 59-105. Our financial statements have been audited by Deloitte Limited, which has been appointed by the Auditor-General, and the auditor's report can be found on pages 57-58.

Board approval

In the Board's opinion, Ports of Auckland's 2019 Annual Report provides a fair and balanced account of our performance on the material matters determined to influence our ability to create value. This report, including the Group Financial Statements for the year ended 30 June 2019, was approved by the Board of Directors on 26 August 2019, and signed on its behalf by:

EM Coutts

Liz Coutts Chair
26 August 2019

S Haydon

Sarah Haydon Director
26 August 2019

Chair's statement

A quiet transformation

Behind Ports of Auckland's red fence, our people have quietly been delivering change. An amazing amount of change. I do not believe many people realise the enormity of the transformation taking place – or the number of world and New Zealand firsts.

Much has changed since I joined the Board in 2010, as we've worked to improve efficiency and put the business on a sustainable footing. Most of that work has been incremental and has brought Ports of Auckland up to international best practice. The work currently underway is revolutionary.

The business has had to adapt to a shifting operating environment, most notably the desire of many in our community to end reclamation and expansion in the Waitematā Harbour. We have given a commitment to end reclamation, but this has created an enormous challenge: Auckland's population is expected to grow by around a million people in the next 30 years, so how do we handle everyone's freight?

Once you accept that you can't do the old-fashioned things like reclaim land, it becomes quite an exciting challenge. How do we put the maximum number of containers and other freight through our little plot of land? Our response to this has to be a quite sophisticated, integrated approach. This includes some physical solutions like automation, vertical infrastructure and freight hubs, but we need to manage all our capitals – including people and the environment – well. That is how we create value for the entire Auckland community.

These elements were brought together to form the core of our 30-year master plan, which was developed in 2017 and put into effect in 2018. Implementation of the plan has been progressing well.

In the past 12 months there has been a great deal of infrastructure work to support automation, as well as thousands of hours of testing of our autonomous straddles (container handling machines). When automation goes live in 2020 we will be the first New Zealand port to automate. The way we are automating and the fact we are automating an operating container terminal are world firsts.

Construction of a five-storey car handling facility on Bledisloe Terminal started in March 2019 and is progressing well. By building vertical infrastructure to handle cars, we create more space without the need for reclamation. The building, which will be finished in August 2020, has some unusual design features intended to help integrate the port with the surrounding community and open up more waterfront space for public use.

The building will have a 110-metre-long LED wall facing Queens Wharf that can be used for visual displays and we will create a beautiful green recreational park on the roof for public use. We believe these features are also world firsts for a working port.

In April 2019 we officially opened our new Waikato Freight Hub and completed our first customer facility. This is a significant milestone for us and for our strategy of extending into the supply chain so we can offer a more efficient and cost-effective service to importers and exporters.

In July 2019 the Board approved the purchase of the world's first full-size, fully electric port tug. This came about as a result of our commitment to be zero emissions by 2040. When we made that commitment in 2016 there were no electric tugs, and when we approached manufacturers about building one they told us we were dreaming. Management have put in considerable effort, working with the manufacturer, to get this tug to the point of being built. It has been hard work – and the up-front cost is higher than that of a diesel tug – but as a company we feel it is important to make a statement about our commitment to reducing emissions and the urgency of tackling climate change. The operating cost of an electric tug is significantly lower, so in the long run we will save money.

Our final first is a project to build Auckland's first hydrogen production and refuelling facility. Hydrogen has the potential to be a very useful fuel source for the port as it can be produced and stored on site, allows rapid refuelling, and provides a greater range than batteries. We have applied for resource consent for the project and are in the process of procuring a supplier for the necessary equipment.

Our people

Our people deliver these large, important infrastructure projects and a lot more besides. Their talent and their commitment are what makes this a successful business. Our people have had to deal with a tragedy this year, with the death of a colleague, Laboom Dyer, as a result of a straddle accident. This was a terrible event and on behalf of the Board and everyone who works at the port we pass on our sincere condolences to Laboom's family and friends. Ports are by their nature risky environments, and this accident has

reinforced our determination to engineer out safety risks wherever possible.

Five projects this year have worked toward that goal: automation of the container terminal; construction of a new refrigerated container gantry; installation of lash platforms on all our cranes; construction of a pedestrian access tunnel under a straddle carrier roadway; and construction of a perimeter access road around the container terminal. Each of these projects eliminates a critical risk and will make the port safer.

We have made progress in our work to improve diversity and gender equity. Changes made last year after a review of pay equity mean we are satisfied that men and women in the same or similar roles are paid the same. We are now focusing on the gender pay gap, which refers to the difference in pay between the average male and the average female within the organisation. This is quite difficult in an industry that has always been dominated by men and where some high-paying roles – for example marine pilots – have almost no women coming through the ranks.

When automation goes live in 2020 we will be the first New Zealand port to automate.

This year we have promoted two more women to the leadership team and more women to management roles in both operational and back-office areas. We also have one woman in training to be a marine pilot.

Leading change is demanding. Our people are bringing about the transformation of the business, which is exciting for many but can mean extra workloads or worries about future job security for others. As a Board we believe the business has a responsibility to support people through such a significant change, and we are committed to the delivery of a comprehensive 'Future of Work' programme before and after automation goes live.

Financial

The results this year are down on the year prior. This is due to a cyclical fall in vehicle imports and because of the work we are doing for automation. Port automation is usually done on new ports or terminals, or in areas that are able to be closed. Because we don't have any spare land, we are automating our terminal while still operating, which naturally results in a loss of capacity. This made it harder to handle peak throughput and has resulted in the loss of a significant container service. In addition, car volumes are down as a result of lower demand and the impact of measures to stop the introduction of the brown marmorated stink bug.

Included in the result this year is a one-off gain of $9.8m from the sale of our Pikes Point property and a revaluation of port investment property. Pikes Point in Onehunga is mainly used for the storage of imported cars. It was not a core asset and has been sold so the proceeds from the sale can be used to fund other, more useful investments. The property sold for $8.3 million above book valuation.

As a result of the need to fund our investment programme, we have notified Auckland Council of our need to reduce dividends. For the financial years ending 30 June 2020 and 2021 Ports of Auckland anticipates paying a dividend of 20% of after-tax profits. For this year (FY19) we have paid an interim dividend of $18,626,000, but have decided to not pay a final dividend. Once automation is live and the peak of investment has passed, we will be able to deliver a higher return again.

Outlook

Looking ahead, the international environment is more challenging and uncertain due to the current geopolitical situation.

While the New Zealand economy has performed well in the past and Auckland is still growing, there has been a significant negative shift in the global trade landscape. The United States' increasingly protectionist stance, the resulting trade war with China, Brexit, and greater uncertainty are leading to international trade weakening as a driver of economic growth. The impact of climate change remains a risk locally due to more extreme weather events and sea level rise, but also internationally due to its potential to disrupt international trade. We believe this needs an urgent response and we are acting accordingly.

On the political front, Ports of Auckland and its location in Auckland continues to be a topic of much discussion. Such speculation is unsettling for staff and customers alike and we hope the next 12 months will provide some resolution of the topic with the conclusion of the Government's Upper North Island Supply Chain Study. Whatever the outcome, it is clear that moving a port is a large and expensive job that will take decades. So in the interim the implementation of our 30-year master plan remains a priority.

Ports of Auckland is in good health; however, execution risk with the automation of the container terminal is considerable as are our safety and social licence risks. I am confident the company will weather any storm ahead of us.

It has been an incredibly tough year for the business and our people. The Board would like to express their sincere thanks to the staff and management for their resilience, tenacity and contribution throughout the year.

EM Coutts

Liz Coutts Chair

How we create value for

1

WHAT WE DO...

We move freight

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

Multi-cargo handling: Half a million tonnes of cement, 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 port and training expertise across New Zealand

We move people

Cruise ship support: Supporting more than 100 cruise ships and over 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 regional hubs and partner ports

2

...USING OUR RESOURCES AND RELATIONSHIPS...

Our people

We have a very diverse workforce of 550 people. A port is a high-risk environment and requires an unswerving focus on health and safety at all times. A tragic fatal accident at the port in 2018 has both shocked us and caused us to relook at all our processes.

Our assets and technologies

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

Our community and business relationships

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

Our financial capital

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

Our knowledge and capabilities

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

Our land and natural environment

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

all stakeholders

OUR VALUES

We work together / We respect and care for each other / We deliver results

We do what we say / We do things better

3 ...TO CREATE VALUE

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

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

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

CASE STUDY

Our master plan for Auckland

NEW CRANES TO INCREASE PRODUCTIVITY AND CAPACITY FROM 1 TO 1.6 MILLION ANNUALLY

PLANS FOR PUBLIC ACCESS VIA A NEW ROOFTOP RECREATIONAL PARK

We have made great progress against our 30-year master plan for the future of the port. This plan ensures we can continue to deliver for a growing Auckland while our location is debated and agreed. This will take time and Auckland continues to grow, requiring additional capacity. We need to be smart in delivering critical infrastructure without expanding out into the harbour. We continue to make great progress against this plan.

New Zealand's first automated container terminal

Automation of our Fergusson terminal provides us with a third more capacity by being able to safely stack containers four high. Automation is happening while the port continues to operate, making this a very challenging project. A key focus this year has been on testing to ensure a smooth transition. See more on page 16.

New cranes provide additional capacity

We welcomed the arrival of three new cranes in October, with the capability to lift up to four containers at once. Together with automation, the new cranes will help boost productivity and increase container capacity on the terminal from around 900,000 TEU to 1.6-1.7 million TEU annually. This increases capacity and future proofs our operations as larger ships continue to call.

Car handling facility and public areas in development

Aucklanders continue to demand more new and used cars. To manage this growth, we are building a new car handling facility that is planned to be completed in 2020. We have also started working with an architect to design the rooftop recreational park, which will provide Aucklanders with some of the best views in the city. The car handling facility will also feature a large 110-metre-long LED wall facing Queens Wharf that can be used for visual displays. We are looking forward to sharing these features with Aucklanders in the future.

Channel deepening to allow bigger ships

The global trend towards larger container ships continues and as a result means we need to deepen the channel from 12.5 metres to 14 metres. We are preparing to submit an application for this work later in 2019 and have proactively engaged with local boaties and yachties, iwi and community groups ahead of our application. As part of our commitment to greater transparency, we will ask for our consent application to be publicly notified, even though that isn't required under Auckland Unitary Plan rules.

Understanding our risks and opportunities

Our materiality assessment

Understanding our risks and opportunities

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

In the past year we have continued our focus on engaging more openly and transparently with our stakeholders, including the community and local iwi. See our case study on page 40 for an example of our engagement.

Risk management

Our materiality assessment works alongside our risk management framework, ensuring our managers better understand stakeholder expectations and how the business affects them. Our risk management framework encourages us to pursue business opportunities and grow shareholder value as well as develop and protect our people, our assets, the environment and our reputation.

Risk management is fundamental to how we manage our operations, and we utilise good-practice risk management processes to support better integrated decision-making. We have a risk management policy and framework to ensure appropriate oversight of all business activities by executive management and the Board. The risk framework requires managers to continually identify, assess, mitigate and monitor risks, and record them on our risk registers. Ports of Auckland is exposed to a number of financial risks, namely credit risk, liquidity risk and market risk. For more detailed information on how we manage these, see page 94.

Our stakeholders

We believe that understanding the views of our stakeholders is critical for a responsible business. We have numerous stakeholders with whom we interact regularly. This section shows the link between our stakeholders' material topics and our business operations. Our materiality process has broadly classified our stakeholders into categories with common material topics (see table below).

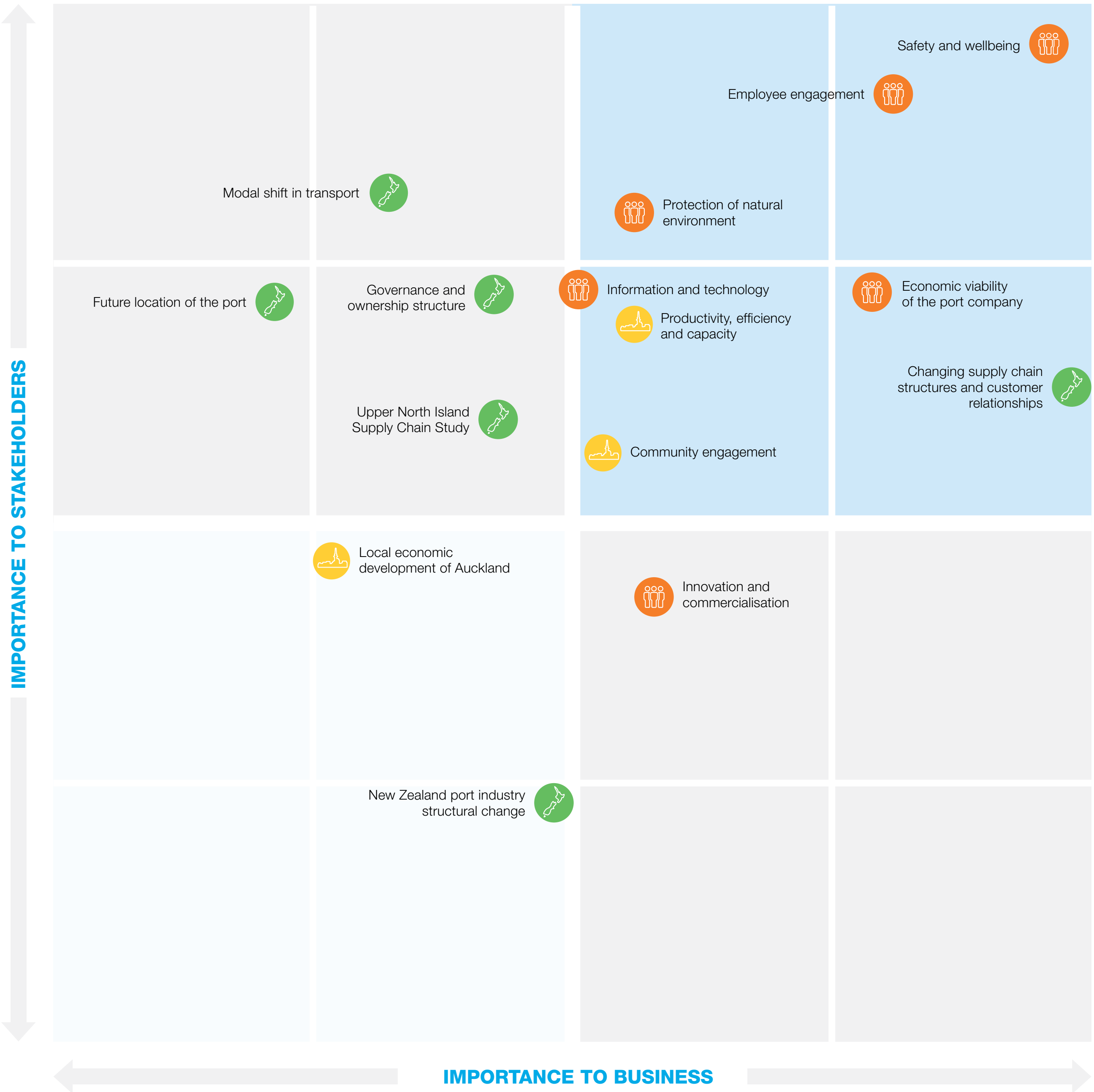
Material topics

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

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

Our materiality matrix



The heat map above provides a snapshot of our most material topics. Over the course of the year, Executive Management have updated the positioning of some of our material topics. As a result of our business planning process and engagement with stakeholders, seven of our 15 material topics have moved to different quartiles this year.

Employee engagement, community engagement and protection of the natural environment have moved into the high priority quartile. Our focus on employee engagement has increased as we engage with our team on automation and the future of work. This is outlined in more detail on page 39. We are responding to changing attitudes about the environment, and are engaging closely with our local communities on issues such as channel deepening. This is outlined in more detail on page 31. Our focus is on being environmentally sustainable. We support New Zealand's goal to be a low-emission economy by 2050, by reducing the number of trucks on the roads and through our substantial investment in new hydrogen technology. These projects are outlined in more detail on pages 47-49.

Innovation and commercialisation have also increased in focus for the port, particularly as we continue our automation project, which is focused on being more efficient on our existing footprint of land.

Our focus on our ownership structure and New Zealand port industry structural change has decreased, as these are being considered as part of the Government's Upper North Island Supply Chain Study review.

This report focuses on the 15 material topics that have the greatest potential impacts on our business. They are summarised in the table opposite.

DISCUSSED IN MORE DETAIL

- See the Chief Executive's statement on pages 22-49 for more detail on material topics.

15 material topics

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

CASE STUDY

Automation set for 2020 launch

NEW ZEALAND'S FIRST AUTOMATED PORT

WORLD'S FIRST OPERATING TERMINAL TO AUTOMATE

In less than 12 months, we will have New Zealand's first automated container terminal. We will also be the first port in the world to automate a container terminal while it is still operating. This creates enormous challenges and affects our capacity as the project develops. This project began three years ago and much has been achieved. Some of this is easy to see, such as the delivery of new cranes and straddles. But there has also been a lot of work that is harder for the public to see, such as new cabling and ducting and the new software that will run the terminal. This capital investment into new infrastructure, machinery and technology will allow the port to operate efficiently within its small footprint.

Automation also means some roles at the port will change. Some jobs will disappear and new jobs will be created. We are supporting our team through these changes, including retraining workers as their roles evolve.

Safer and more efficient operations

A key benefit of automation is that it removes people from critical risk areas such as driving straddles and driving on the container terminal while straddles are operating. New fencing and security controls have now been installed in the truck grid. This also creates a safer and more efficient environment for teleoperators and truck drivers picking up and dropping off containers.

Rigorous testing and training

Before we go live, each straddle will have undergone 500 hours of testing to ensure it will work in the live environment. The initial testing, by manufacturer Konecranes, is now complete. To ensure minimal disruption when we go live, we are also carrying out a full operational simulation from ship to truck. We have developed a state-of-the-art virtual training programme to replicate the automated terminal. This training will soon be underway.

Over 100 staff tours of the automation test area

13,000 testing hours across the A-Strad fleet

Future of work

We understand that automation creates uncertainty for many in our team and we are committed to providing them with opportunities to upskill and retrain for the jobs of tomorrow. This will involve training people for new jobs on the port like production management, new skills on the port such as teleoperating, or new skills for work outside the port such as truck driving. Training for automation and beyond is planned to increase significantly in the new year.

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: We are owned by the city. The port has been a key part of Auckland for more than 175 years. We provide significant economic benefits and thousands of jobs directly and indirectly, and deliver the things that make Auckland a great place to live, study, work and play.

Meeting the needs of a growing city: We work hard to support Auckland's growth and lifestyle by delivering goods shipped to Auckland. We are committed to a partnership approach with our customers. We are also committed to close engagement with our neighbours, iwi and the community.

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
- 2020 straddle automation successfully completed
- 30-year master plan infrastructure developments completed on target

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

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

Supply chain opportunity: We have built regional transport hubs to create efficiencies for regional customers to export their goods to global markets.

Global shipping line consolidation: As shippers consolidate, invest in larger ships and drive down costs we have to be more efficient at our Waitematā port. Automation, the car handling building, dredging the channel and other developments will deliver increased capacity without reclamation.

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

- Innovation leader
- Safe and empowered people
- Improved environment

Future of work: Innovation and sustainable practices at the port are changing the way people live and work. We are adapting to ensure everyone at the port can succeed in the future work environment. We have high expectations of safety, wellbeing, diversity and inclusion.

The drive for new technologies and environmental sustainability: Whether it is the use of hydrogen and electricity as a fuel, the automation of our straddles, the use of data for efficiencies or the reduction in our carbon emissions to zero by 2040, we will meet the needs of a growing Auckland responsibly and successfully.

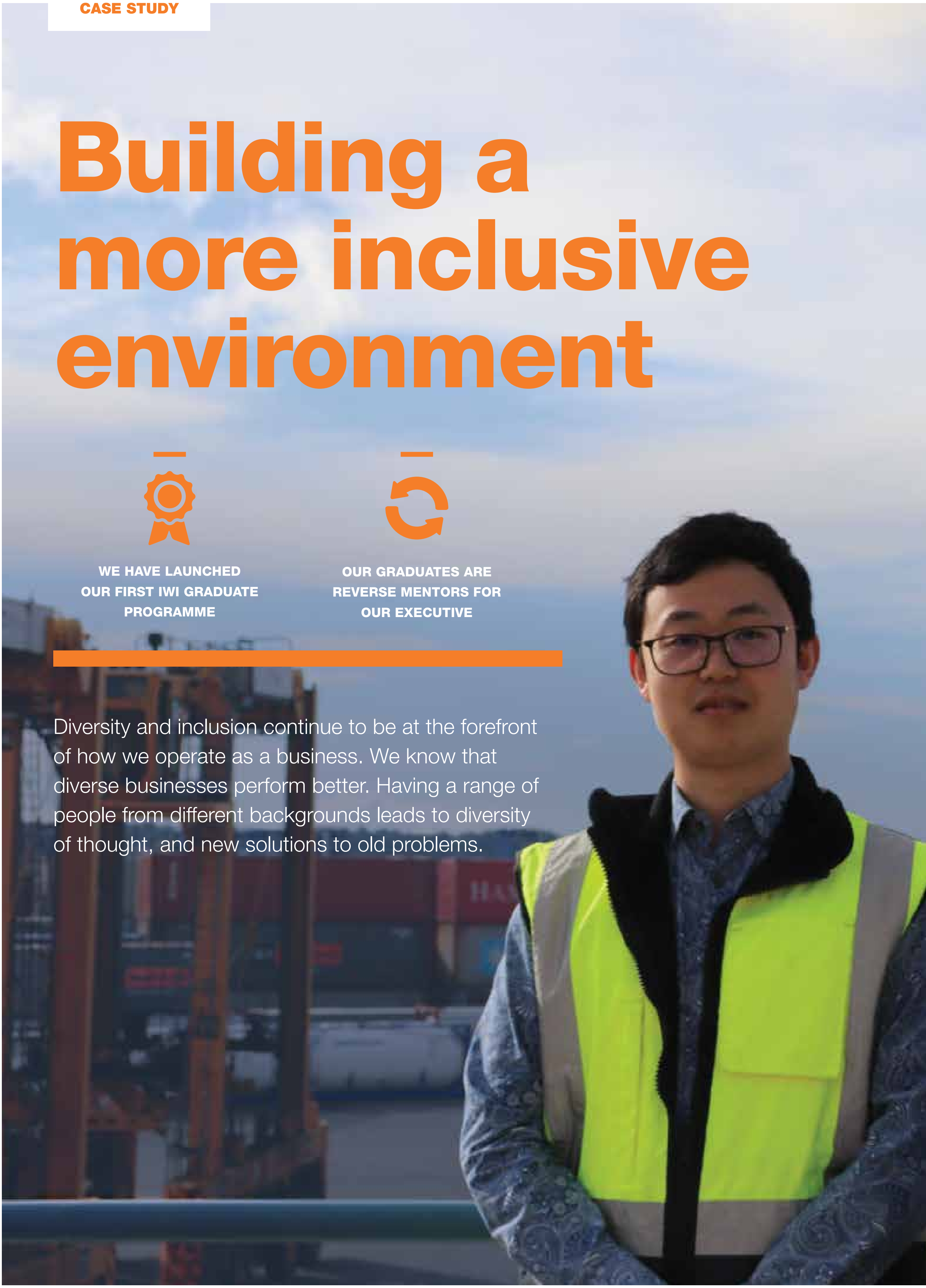
Aspiring to be an innovative and sustainable world-class port company, with safe and empowered people, working for Auckland and serving New Zealand

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

CASE STUDY

Building a more inclusive environment



WE HAVE LAUNCHED OUR FIRST IWI GRADUATE PROGRAMME

OUR GRADUATES ARE REVERSE MENTORS FOR OUR EXECUTIVE

Diversity and inclusion continue to be at the forefront of how we operate as a business. We know that diverse businesses perform better. Having a range of people from different backgrounds leads to diversity of thought, and new solutions to old problems.

Acknowledging women

Given that shipping and logistics have predominantly been male-dominated industries, we're immensely proud of the work we're doing to support and encourage more women to enter the sector. We have more women at all levels of the company than ever before, and this year we also appointed two women to our executive team, bringing the total to three. We are a proud member of Champions for Change, an initiative bringing New Zealand's leading chairs and chief executives together to advance inclusion and diversity across the country.

360 Graduate programme

Our 360 Graduate programme continues to provide us with a pipeline of new talent. The programme provides each graduate with four six-month placements across the port's various business units over a two-year period. This year our graduates are Kahurangi Morehu, Jerusha Sharp and Xuzhao Yan. The graduates are not only learning about the port but also taking on active reverse-mentoring roles for the executive team. This provides valuable new perspectives and fosters fresh thinking for our senior leaders.

He tangata, he tangata, he tangata

We have worked hard to build stronger relationships with local iwi. Building meaningful and long-term partnerships is critical and a willingness to better understand culture nuances is key. A key development this year was the creation of a position on our 360 Graduate programme for a member of local iwi. We also made an investment in offering our people weekly tikanga and te reo lessons and established a port kapa haka group, all of which have been people-led. These are small but critical initiatives and we will continue to build on these relationships in the coming year.

Chief Executive's statement

Summary

This financial year has been a tough one for our people and the business.

In August 2018 one of our colleagues, Laboom Dyer, was killed when the machine he was driving tipped over. This was a tragic event and it has deeply affected everyone at the port. Our thoughts are with Laboom's family and friends. Such accidents are extremely rare (the last death in a straddle carrier accident here was in 1976) but regardless, the impact on our people has been significant. We have worked hard to support our team through this time.

To add to the challenge, work on our automation project has been at its peak. In particular, the infrastructure work needed to automate the terminal – digging trenches, renewing pavements and installing cabling and light poles and so on – has reduced terminal capacity and made operating more difficult, especially during the import season. We have lost a significant service as a result and container volumes are down.

Other cargo volumes are also down, particularly car imports. This is mainly a cyclical phenomenon as car sales have dropped, but there has also been some impact from the actions taken to prevent the brown marmorated stink bug entering the country.

However, there have also been many positives this year. While the automation project has been disruptive, it is going well, and we are on track to go live in February 2020. The successful implementation of this project will have a massive impact on our business. It is also a game changer for the Auckland and upper North Island supply chain.

Work on other master plan projects has progressed well. We took delivery of three new ship-to-shore container cranes in October 2018. Construction of our new car handling facility is well underway. We were granted consent for the disposal of dredged material at sea, necessary now that reclamation is ending. We completed the first customer facility at our Waikato Freight Hub, which was officially opened in April 2019. Finally, we have been consulting stakeholders on our plans to deepen the channel for larger container ships and hope to apply for consent around October 2019.

We have also made good progress in making our business sustainable. Sustainability isn't just about saving whales or reducing emissions – although these are both good things. It's about ensuring our business can operate profitably for the long term, in harmony with the community around us, while offering a great place to work and caring for our environment. We aspire to be a leading sustainable port at a global level, woven into the fabric of Auckland and driving the city's sustainable growth to improve the environment for future generations.

Our 30-year master plan was designed with this aspiration in mind, which is why it contains infrastructure projects like our car handling facility, which will deliver operational, community and environmental benefits. It does this by providing more capacity without reclamation and with the addition of a new public facility – a rooftop recreational park – on the waterfront. In general, the delivery of each master plan project is another step toward creating a sustainable business.

We are also making progress toward one of our big targets, to be zero emissions by 2040. In December 2018 we announced our plan for a pilot hydrogen production facility, which will be used to test hydrogen-powered port vehicles, and in August we announced our world-first electric tug. Projects like this are challenging, but very important. As a company we recognise that tackling climate change is urgent and we are committed to reducing our emissions. Both these projects are a clear statement of our intent, and a challenge to other businesses. Companies compete on profit and performance all the time, so why don't we go head to head in a green challenge to see who can make more progress?

Financial performance

Total Group revenue has increased from $243.2 million to $248.1 million, up $4.9 million. Underlying profit for the Group is $45 million, down $14.2 million on last year as a result of reduced space due to automation work, the loss of a service and lower car volumes.

Ports of Auckland Executive team (L-R): Reinhold Goeschl, General Manager Supply Chain; Alistair Kirk, General Manager Infrastructure and Property; Diane Edwards, General Manager People, Systems and Technology; Wayne Thompson, Chief Financial Officer and Deputy Chief Executive Officer; Tony Gibson Chief Executive Officer; Allan D'Souza, General Manager Operations; Rosie Mercer, General Manager Sustainability; Angelene Powell, General Manager Container Terminal Operations; Craig Sain, General Manager Commercial Relationships; Matt Ball (absent), General Manager Public Relations and Communications.

As a company, we recognise that tackling climate change is urgent and we are committed to reducing our emissions.

Operational performance

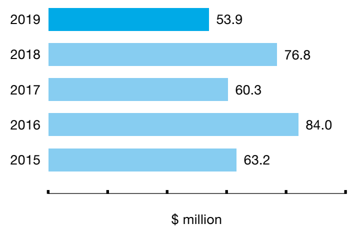
Volumes have fallen this year, partly because of reduced container terminal capacity as a result of automation work, and partly because of a cyclical drop in vehicle import numbers. Container volumes are down 3.5% to 939,680 TEU and breakbulk volumes (including cars) are down 3.3% to 6.5 million tonnes.

Car volumes were expected to decline slightly this year, but fell by 14% to 255,252 units, compared with 297,678 units last year. As mentioned, the main cause was simply a cyclical downturn in new and used car sales, but there was also an impact from the new treatment rules for vehicle imports, which are designed to prevent the brown marmorated stink bug entering the country.

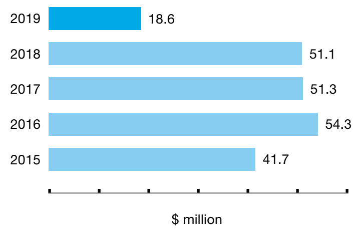
We are starting to notice a seasonal impact of these new measures, as the cost of treatment (around $250 per vehicle) is significant, especially for used-car imports. To avoid this cost, some importers are delaying imports until the bug season (Northern Hemisphere winter) is over. As a result, we have seen lower volumes in the New Zealand summer and an increase in volumes in our winter.

The fall in car volumes isn't welcome from a revenue perspective but it does have a silver lining. While the construction of our car handling facility is underway, we have lost one hectare of car terminal space. This is around 10% of capacity, and would have been extremely hard to handle had

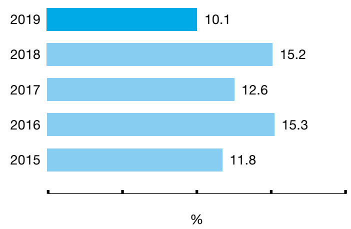
Net profit after tax



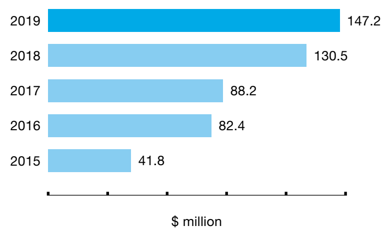
Ordinary dividends declared for the year



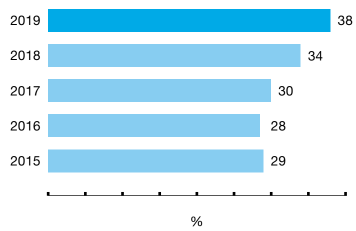
Return on equity
(excluding asset revaluations)



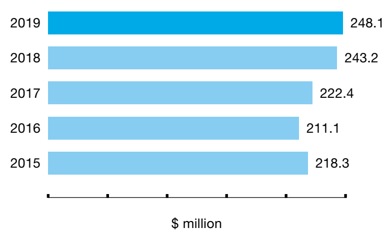
Capital expenditure



Interest-bearing debt to debt + equity



Revenue – statutory



> With the amount of capital work underway at the port, we knew that maintaining high productivity was going to be a challenge this year.

volumes not fallen. While we prepared for construction by creating an inland car handling hub to take overflow from the port, the reduction in volume has delivered a more straightforward solution to the problem.

Container volumes to the Pacific Islands have increased by 21% this year, to 131,085 TEU, and overall trade volumes to the Islands have been strong. We continue to provide a vital link to these communities.

There have been 1,381 ship calls this year, a drop of 7.4% on last year. The majority of this drop has been the result of fewer container terminal ship calls as a result of service and schedule changes. With the reduction in the number of container lines serving New Zealand, there are fewer services overall, carrying more freight per service. As a result the loss of one service can have a significant impact.

There have also been fewer Navy ship calls, and a slight reduction in car-carrying vessels.

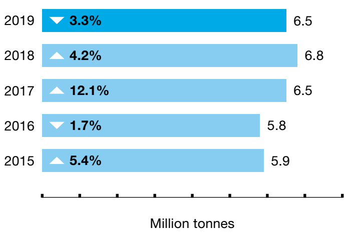
Cruise ship visits have increased significantly, up 19 to 127 for the year compared with 108 last year. Cruise passenger numbers have increased to 330,088 compared with 272,060 last year, a 21.3% increase.

With the amount of capital work underway at the port, we knew that maintaining high productivity was going to be a challenge this year. Our aim was to keep our service at the same level as it was last year.

Measuring our car handling performance is difficult as there is no international standard against which to measure it. However, as part of the Port Future Study in 2016, EY (which produced the technical report for the study) benchmarked our performance in vehicle handling against that of the Port of Southampton, which is regarded as one of the world's most productive and innovative automotive import ports. Southampton utilises five-level car storage and achieves yard productivity of 27,108 Car Equivalent Units (CEUs) per hectare per annum. Ports of Auckland's productivity record of 29,042 CEU/ha/pa was achieved in FY 2018 due to the record high number of imports, although the number has fallen to 24,903 CEU/ha/pa this year, as car imports declined. We expect to improve our performance on this measure once the new car handling facility is operating.

The main reason for our high performance is our low dwell time. Southampton's average dwell time is estimated to be around twice as long as Ports of Auckland. We are particularly proud of keeping

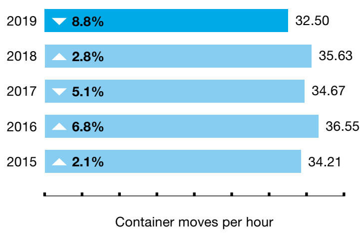
Bulk and breakbulk*



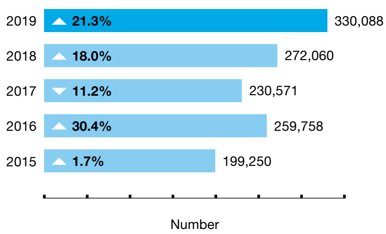
* Ports of Auckland's Waitematā seaport and Onehunga seaport. Includes cars.

Crane rate

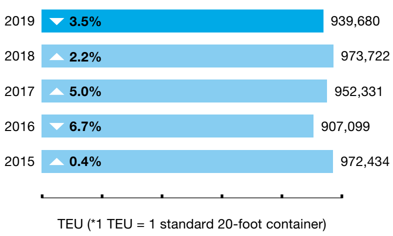
(Australasian Waterline Standard)



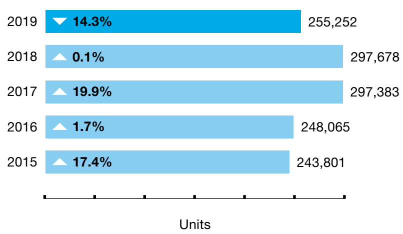
Cruise ship passengers



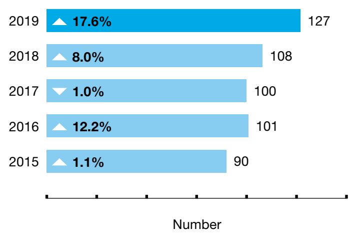
Container throughput (TEU)



Cars



Cruise ship calls



vehicle dwell time to a minimum – currently just below 2.5 days. We have put a lot of work into managing and reducing vehicle dwell times. As the figure opposite demonstrates, from 2012 to 2018 we managed to maintain an industry-leading dwell time of around 2.5 days, while almost quadrupling the volumes processed.

In 2017 dwell times increased due to a sudden surge in imports of new utes (utes are larger, so fewer fit on car transporting trucks and it takes longer to move them off port) but we quickly recovered and reduced dwell times to below the long-term trend.

We are pursuing further opportunities to speed up removal, but these are increasingly more difficult and costly.

Overall, while the remaining opportunities to reduce dwell time are limited, the total volume of vehicle imports will continue to grow and the delivery peaks – over which we have no influence – will get bigger. This is what makes investment in the vehicle handling facility essential.

Capacity transformation

Our ability to handle freight is partly determined by our own infrastructure and practices and partly by those outside the port gates: our road, rail and sea links. It is part of our role to deal with constraints on and off port, either by ourselves or in partnership with others. Ensuring that the supply chain has sufficient capacity is vital for a city that is still growing fast and is expected to grow by around a million more people by 2050.

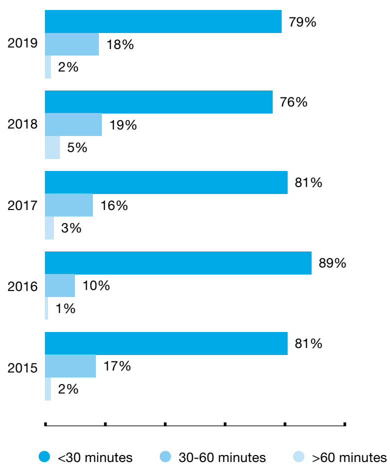
The infrastructure capacity issues at the Waitematā seaport that were noted in last year's report are still with us, but the worst is behind us and solutions are being built. The infrastructure works associated with automation are due to be completed in October, which means the terminal will have more capacity for the 2019 import peak season. Automation will go live in two stages, starting with the northern half of the terminal in February 2020 then the remainder of the terminal in April 2020. We can expect to see the full benefits of increased capacity and productivity as a result of automation start to be delivered in the second half of 2020.

On our multi-cargo and general cargo wharves, the biggest capacity constraint has been in the car handling business, although the wharves that handle Pacific Island trade are also in need of new capacity, primarily berthing space. The first phase of the work to deliver this capacity is underway, with the start of construction of the car handling facility. This is due for completion in August 2020. Once that project is complete, we intend to apply for consent for phase two, which will involve the construction of one new berth and the rehabilitation of several others, adding nearly a kilometre of berth length, a 30% increase in capacity.

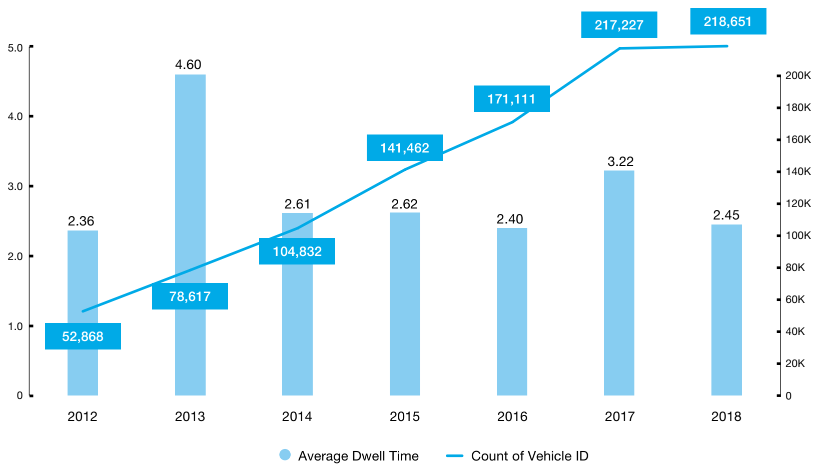
Like many businesses, we have also found it difficult to recruit and retain staff at a time when New Zealand's labour shortage is at record levels. A shortage of stevedoring staff caused a number of problems for us in the 2018 import season. In response we have made a number of changes to how we recruit people, which has increased staffing levels. We have also changed the structure of our stevedoring teams to improve job satisfaction and performance. These changes are starting to show results, but we still have a way to go before we can say we are at full staffing capacity. We are carrying out a detailed analysis of how we roster staff currently, to see if there is a more effective way to deploy people that benefits both the business and staff.

While we are making considerable efforts to increase port capacity and efficiency, the off-port supply chain is under pressure and remains a constraint on the efficient movement of freight in and out of the port, and around the country. Investment is needed in road and rail to support Auckland's growth, and while the port

Truck turnaround
(% trucks turned around in time)



Car dwell times



Source: POAL analysis. Excluding export, transhipments and Toyota leased transition facility

If we can encourage more containers to be moved by rail to our freight hubs, there will be fewer trucks in the city centre, and fewer of the negative impacts associated with trucking.

works 24/7, distribution centres, importers' warehouses and empty container depots largely do not.

As a result, the port is often busy with trucks during week days, but has ample capacity on weekends and at night. A shortage of truck drivers makes it hard for trucking companies to find enough staff to be able to utilise the off-peak hours and a chicken-and-egg situation has developed. For example, empty container depots could open 24/7 but won't unless there is demand, but the demand can't be created because there aren't enough truck drivers.

This year we have been working with others in the supply chain industry to find ways to solve this problem. Some of the answers lie in our own business rules, which we can use to incentivise behaviour change. For example, this year we have introduced a fee for trucking companies that book slots to pick up containers from the terminal but do not use them. This wastes capacity that could be used by other companies. The change has resulted in an 84% reduction in no-shows. We are working on other ways to increase the off-peak use of container terminal capacity, but this is a harder problem to solve and will take some time.

For rail, the main limiting factor at present is cost. It is the flip-side of having a perfectly positioned port. Because we are in the central city, the destination for imports is close by. Delivery to and from Auckland is fast, cheap and comes with fewer carbon emissions than it would for containers delivered to other ports. But this works against rail. Trucking is faster and cheaper over short distances. Moving containers by rail has other benefits, which aren't necessarily reflected in the price. If we can encourage more containers to be moved by rail to our freight hubs, there will be fewer trucks in the city centre, and fewer of the negative impacts associated with trucking: emissions, noise and congestion.

To overcome this, we are working with KiwiRail to try to increase the efficiency of our rail service and increase the number of rail services to the port. This is not to say trucks are bad – they are an essential part of the supply chain – but there simply isn't room on the roads for all containers to be moved by truck. We are also keen to reduce the external impacts of the port on local communities, and these include the impacts of trucks.

Looking to the future, we are aware that the successful implementation of our freight hub strategy will mean more containers are carried by rail, especially from our Waikato Freight Hub. The completion of the City Rail Link will deliver a significant increase in passenger services. Together, this means that while current rail capacity is sufficient, there is an urgent need for more investment in infrastructure on the main trunk line between Southdown and Wiri, and possibly further south, to cater for future growth. We are pleased that the current Government is backing rail and has expressed support for the construction of a third and possibly fourth rail line in this area. Known as the third and fourth mains, construction of both would future-proof rail capacity in this area for both passenger and freight growth.

We look forward to the release of the Government's rail strategy later this year, which we hope will clarify the date of construction for this and other important rail infrastructure.

The road network is also problematic, with the link from the port to the motorway along The Strand and Beach Road often congested. Auckland Council's City Centre Masterplan refresh includes plans for The Strand, with suggestions that it be widened and 'boulevarded' to improve access and 'liveability'. It is good to see some progress on plans for this important access route, but we have yet to see the full detail and there is no start date for the necessary work.

I want to close by thanking the team for their hard work over the year. We have achieved an enormous amount, and are delivering against all pillars of our strategy. More details on this are discussed on the following pages.

Tony Gibson Chief Executive

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

Delivering our 30-year master plan

It is now nearly 18 months since Auckland Council endorsed the general direction of our 30-year master plan. We have achieved a lot already, with more to come in the next 12 months. As we started to deliver the plan, some commentators questioned our approach in light of the Government's Upper North Island Supply Chain Study. The view was expressed that the study may result in some or all of our Waitematā port's operations being moved, therefore we should do nothing, and wait. It is worth discussing this, as we do not agree with that view.

The location of our port is a matter for much debate, that is true. Such debates are common among ports worldwide. Ports develop in good natural harbours, cities grow up around them, and eventually the ports and cities may outgrow each other. Ports are extremely useful assets: they are massive economic drivers, facilitating billions in GDP and hundreds of thousands of jobs. They are also quite useful when you live on an island.

However, they have negative external consequences: emissions, noise, light pollution and congestion. They sit on flat land with great sea views and some people don't like the way they look, although this is in the eye of the beholder. For every person who tells us they don't like the look of the port, another tells us they enjoy watching ships come and go, or the activity at the container terminal.

Some cities have successfully moved their ports – but most have not. Contrary to popular myth, the vast majority of ports have remained where they first started. They may, like Auckland, have moved operations somewhat, but wholesale relocation is rare. There are two reasons for this. Good harbours are hard to find and building a new port – with all the necessary road, rail and other infrastructure – is extremely costly. The work is expensive in monetary terms, the environmental cost of industrialising a new part of the coastline is high, and the carbon emissions from construction are massive. Freight transport costs of any new port will necessarily be higher because it will be located further away from where the freight needs to go – the further away, the higher these costs will be.

Ports of Auckland has no issue with moving the port. That's a shareholder and central government decision and it makes no difference to our job of operating a successful business. We simply do not agree that it can happen quickly, and all the evidence backs that up. You only have to look at any large infrastructure project in New Zealand to get an idea of how long this work would take. The Waterview Connection, the Waikato Expressway, Transmission Gully and so on. All are multi-decade projects from inception to completion. Just consenting a new port will be a massive challenge, let alone everything else.

Some commentators think that using existing ports is the answer, and that the entire vehicle import trade could be moved to Northport in a few years. This simply isn't possible. Northport has only 570 metres of wharf, which is heavily utilised by its existing cargo. In comparison, Auckland has almost 3,000 metres. A large amount of new port infrastructure would need to be built, most of which is unconsented. Road and rail upgrades would be needed, plus new inland ports to the north of Auckland to handle distribution.

In the eight years I have been at Ports of Auckland there have been five port location studies (including one of our own), six if you count the Upper North Island Supply Chain Study – and still the debate is ongoing. For six of those years, until 2017, our development plans were on hold until we found a compromise that suited most people. In that time freight volumes grew significantly and we are now essentially at capacity. If we continue to do nothing and wait for a new port to be built, we would be failing Auckland. The city would continue to grow around us, but our ability to move freight would stay the same. The result would be similar to what happened during the 2018 import peak season, but it would be all year round. Congestion, delays, higher costs. At best it would strangle the city's growth; at worst it could lead to severe disruption and shortages.

That is why we have moved ahead with our master plan projects, to ensure we have enough capacity to handle Auckland's freight growth until a decision is made. We will continue to implement the master plan until a clear plan for port relocation has been developed and funded.

1.6 MILLION TEU

CAPACITY AT THE CONTAINER TERMINAL AS A RESULT OF AUTOMATION

3,000m

WHARF LENGTH AVAILABLE AT OUR WAITEMATĀ SEAPORT

Supporting local exporters and importers – and taking trucks off the road

SUPPORTING THE WAREHOUSE GROUP TO TAKE 4,500 TRUCKS OFF THE ROAD PER WEEK

100% OF CONLINXX FLEET UPGRADED

The port's national supply chain network provides full logistics services around our Auckland seaport and network of four regional freight hubs. The network is managed by Nexus Logistics, which works with clients to ensure the most efficient supply chain. This means not only delivering financial savings, but also reducing carbon emissions by taking more trucks off the road.

Improving efficiency and workplace culture

Nexus Logistics and CONLINXX are owned by the port, and provide intermodal freight solutions for companies across New Zealand. Nexus Logistics provides fourth-party logistics, while CONLINXX is a third-party provider managing trucking, rail and freight hub management in the Auckland metro area. We have streamlined the internal operating structures of Nexus Logistics and CONLINXX to create a single operating model and chief executive. This has improved the team culture while also delivering greater operational efficiencies.

World-class transport management system

We are investing in a new transport management system so we can better manage our clients' cargo journeys. This provides dynamic and accessible management of clients' supply chain movements across intermodal fleets.

Providing more sustainable supply chains for customers

With oversight of the full logistics environment and intermodal options, we can provide complete supply chain options. These include utilising rail where possible to reduce the number of trucks on Auckland roads. We have recently been awarded a five-year contract with The Warehouse Group to manage its logistics after a successful season where we reduced the number of truck journeys to the port by 4,500 per week using the rail shuttle. We delivered a more efficient service, while also supporting our customer's sustainability efforts.

100% low-emission fleet

We are also committed to being a more sustainable business and have invested in low-emissions vehicles throughout our fleet. The complete CONLINXX fleet has been upgraded to Euro 5 standards – making ours one of the most sustainable fleets in New Zealand.

DELIVERING THE GOODS TO SUPPORT AUCKLAND'S GROWTH AND WAY OF LIFE

New Zealand's first automated container terminal

The Fergusson Container Terminal automation project has gone well this year. A massive amount of infrastructure work has been completed already and it will all be complete in October 2019. This will bring some relief to our customers and operations teams, as we will be back to almost full yard capacity at the terminal. Only the automation test area will remain unavailable for operations, but of course it is essential to the project.

I cannot overstate just how much work has been carried out. We have remediated more than 10 hectares of pavement and installed 30 kilometres of ducting, 22 kilometres of fibre-optic cable and many more kilometres of electrical cabling. We've built a refrigerated container gantry, that can take containers four high, built a 70-metre-long pedestrian tunnel, installed five lash platforms on our old cranes, upgraded most of our truck lanes for automation and installed 31 new light poles. We have built a new straddle refuelling area, and a new customs X-ray area, refurbished our control and planning area and created a new access road around the terminal perimeter. We've taken delivery of three state-of-the-art container cranes. This is just some of the work we've done, and what's more it has all been done in an operating terminal.

Again, I can't stress that last point enough. That we have kept the terminal operating and maintained a pretty good level of productivity is just fantastic. Everyone involved in this project has worked extremely hard and the cooperation between teams has been brilliant. We have a world-class team here at the port, and I would like to congratulate everyone for their success so far.

Of course the delivery of the infrastructure is only one part of the project. There has also been an enormous amount of work done to get the autonomous straddles – or container-carrying robots – ready for service. Each machine will have had 500 hours of testing by the time automation goes live, more than 13,000 hours for the entire fleet of 27 straddles. We have tested the machines for mechanical reliability, tested their independent operations and then tested them working together. Finally, we are carrying out a full operational simulation, from ship to truck and back.

There is a significant operational risk in a project like this, particularly because we are automating an operational terminal. The consequences of a breakdown or systems failure after we go live would be severe, so we need to ensure as far as possible that this doesn't happen. If we were automating a newly built terminal we could do this testing before opening, but we can't close down to enable this to happen. We have taken several steps to mitigate this operational risk.

The first is the testing mentioned above, which is thorough and extensive. The second is that we will split the terminal into two areas, north and south, and automate the northern section first. Several months later, once it is running smoothly, we will turn on automation in the entire terminal. Finally, we have moved the automation go-live date. We were planning to go live in late 2019, but this is during the import peak and close to the summer holidays. Our people have been working extremely hard this year and they need a break. We will now go live in February 2020 when the import peak is over and everyone is back at work and well rested.

You can never be 100% certain that a project like this will go flawlessly, but based on the work our team has done to date, I am confident that automation will be a success.

345,000

PEAK CAR EXPORTS EXPECTED INTO AUCKLAND BY 2035

Public park

TO BE A KEY FEATURE OF THE CAR HANDLING FACILITY

New car handling facility

Cars. We love the mobility they give us but hate the fact that everyone else has one too and they clog up the roads. For now, they are a necessary evil and they continue to arrive in the country in high numbers. Change is not expected soon.

A 2017 report by NZIER forecast that volumes would increase as a result of growth and the move to replace existing cars with electric vehicles. It predicted a slight fall in imports until 2021, followed by an increase until 2033 due to rising electric vehicle imports, population growth and ageing (older people own more cars). After this growth eases, largely due to the longer life of electric vehicles and slower population growth. Imports through Ports of Auckland are expected to peak at around 345,000 in 2033, although this could be a low estimate given that our current peak volume is just under 300,000.

At the same time, we are under pressure to remove cars from our central city wharves, particularly Captain Cook Wharf. People complain about how this looks and the perceived waste of space, plus there is a desire for this wharf to be used for something more compatible with public access, perhaps cruise ships. So we will need to handle more cars with less space and in a way that means they can't be seen.

That is why we are building vertical infrastructure for handling cars – a car handling facility. Clothed in an attractive façade and topped with a new public recreational park, it will be an asset to the city as well as being a functional building capable of holding up to 1,700 vehicles. Consent was granted in the second half of 2018, and construction started in March 2019, with completion due in August 2020.

New Bledisloe north wharf

To meet demand for berth space, we are planning a new wharf on the north end of Bledisloe Terminal. We intended to lodge consent for this work in 2019, but the project has been put back to late 2020 to give work on other projects priority. The new wharf will extend 13 metres into the Waitematā Harbour and will create a lot of interest, so we will engage with stakeholders before we lodge our application for consent and the consent application will be publicly notified.

Disposal of dredged material

All ports need to dredge berths and channels for safe navigation or to accommodate larger ships. Currently our dredged material is used for reclamation, but we have made a commitment to end reclamation, and when the Fergusson Container Terminal expansion is completed in the next couple of years it will no longer be an option. That is why we have sought consent to use the 'Cuvier Dump Site' 150 kilometres from Auckland for disposal. This is one of five Government-approved disposal sites in New Zealand.

In June 2019, the Environmental Protection Authority granted Ports of Auckland a 35-year consent to dispose of dredged material at this site. This is great news, as it secures our ability to operate for the foreseeable future.

Channel deepening

Over the next few years we will need to deepen our channel to take larger container ships. The largest container ships we handle at the moment carry up to 5,000 TEU. Shipping lines want to bring 6,000-7,000 TEU ships here in the next two or three years and in future we will need to host 'New Panamax' ships that can carry around 12,000 TEU.

The shallowest parts of the channel are 12.5 metres deep at low tide, whereas 6,000-7,000 TEU ships have a draft of 14 metres and New Panamax ships have a draft of 15.2 metres. To keep dredging to a minimum, we will use tidal windows. Tidal windows are in common use in other New Zealand ports, and simply mean that deeper-draft ships enter or leave port when the tide is high enough.

To create a suitable tidal window for New Panamax ships to access the port safely we will need a channel that is 14 metres deep on the straights and 14.2 metres deep on the bends. As it takes around 15 hours to unload and load a container ship, our berth will be dredged to 15.5 metres so ships can stay through a full tide cycle.

We will use a mechanical dredge – a digger on a barge – to deepen the channel. The digger will have a long arm to reach down to the seabed and scoop out sediment and rock. The bed of the channel is mostly soft material such as marine muds, mudstones and some sandstone and gritstone, which can be removed by a digger. No blasting is required.

This year we have undertaken a wide range of studies to examine the likely impacts of dredging, including work on navigation and safety, wave and current impacts and biosecurity. The studies are available on our website. In around October 2019 we will apply to Auckland Council for a 30-year consent to deepen the channel. We will apply for consent to dredge in stages – probably two:

- Stage 1 for 6,000-7,000 TEU vessels
- Stage 2 for New Panamax vessels.

That we have kept the terminal operating and maintained a pretty good level of productivity is just fantastic.

Normally this would be a non-notified consent application, as all the work will be done in the existing channel precinct, which allows this type of activity. However, in the interest of maximum transparency we have decided to notify the consent application. This is consistent with our commitment to "be open and honest in our communications".

Investment in the Golden Triangle to boost New Zealand's fastest-growing region

OUR WAIKATO FREIGHT HUB SUPPORTS LOCAL BUSINESSES

IMPROVING SUSTAINABILITY BY PRIORITISING RAIL

Our Waikato Freight Hub has opened in the heart of the Golden Triangle, New Zealand's fastest-growing region. Our rail-connected North Island freight hub network links Kiwi businesses with New Zealand and global markets, supporting regional growth. The Waikato Freight Hub is located in Horotiu, and complements our existing freight hubs in South Auckland, Mt Maunganui and Manawatū.

We are an import-dominant port thanks to our proximity to Auckland – New Zealand's largest consumer market. Our freight hub network allows us to balance the volumes of imports and exports, and enables a greater use of rail, improving sustainability and generating infrastructure savings at a national level.

Open for business

Transport Minister Hon Phil Twyford and Waikato District Council Mayor Allan Sanson officially opened the new facility earlier this year. The hub already has its first customer, Open Country Dairy – New Zealand's second-largest exporter of whole milk powder. We are actively talking to more potential tenants and expect further developments during 2020.

Generating local economic stimulus

Once fully complete, the new freight hub is likely to generate 300 new jobs directly in the local district and across the Waikato region. It provides Waikato customers with a flexible and efficient supply chain. Construction of a new road access bridge over the main trunk rail line is now complete.

300

new jobs directly in the local district and across the Waikato region

Rail connection

A temporary rail service is now operational between Hamilton and Auckland, helping to reduce pressure on roading. Currently, rail-siding design concepts are in development and we anticipate work to be happening on site by 2021.

DELIVERING THE GOODS TO SUPPORT AUCKLAND’S GROWTH AND WAY OF LIFE

Active in the community

The main role of a port is to move freight efficiently in and out of a country. That’s its basic economic function. It’s a transport link, like a road or rail line. Measured just on that basis, having a port in Auckland delivers a massive economic benefit. When we had our economic impact measured in 2015 by Market Economics, it found that having a port in Auckland facilitated $14 billion in value added (GDP) in 2015 or 169,000 job equivalents, representing 20% of the economic activity in Auckland.

We know that this is our main role, and that the better we are at doing our job, the better Auckland will do. But money isn’t everything. We also need to be an active and responsible member of the community.

We continue 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 sixth SeePort event, in which we throw open the gates and invite Aucklanders in to see the port. This year we focused on technology and automation, showcasing the change that is happening in our industry. We had great participation from our partners again this year and a highlight would have to have been the support from KiwiRail and Pollock Cranes to bring a locomotive onto the waterfront for the first time in many years. Again, the crowds were back, with more than 70,000 attending. SeePort has become something of an institution, and we hope to be able to keep bringing it to the Auckland public for many years yet.

We are again naming rights sponsor for Ports of Auckland Round the Bays, New Zealand’s largest fun-run. More than 29,000 people registered to run the 8.4 kilometre route from Quay Street in the CBD, past the port and on to St Heliers Bay. Our staff look forward to the event, and each year a team of around 1,000 staff and families takes part in the run and enjoys a barbeque and some social time at the end. Ports of Auckland Round the Bays donates money to selected charities – this year $60,000 was shared between Big Buddy, Diabetes New Zealand and Sea Cleaners. We are proud to be the major supporter of this fun event.

Those are the big two community events we support, but we also have a portfolio of smaller sponsorships, of which many aim to help young people and promote wellbeing. They include support for SCOUTS New Zealand through a $50,000 annual grant to support an Auckland Region Development Officer, who helps to grow the organisation and supports the volunteer SCOUT leaders. We also like to get together with our customers and industry partners to enjoy some golf and raise money for charity. This year 27 teams joined us for the annual Ports of Auckland Golf Day and raised $45,000 for Ronald McDonald House.

We support Auckland’s heritage, providing funding for the steam tug *William C Daldy,* which is the last remaining working tug of its type in the world. This year we worked with the *Daldy* team to provide public tours during Auckland Heritage Week, and for the first time the *Daldy* hosted public tours at SeePort.

We have had some changes in our portfolio this year. We have had to end our on-water school port tours after the cost of hiring a ferry for these tours increased significantly. While it is a shame that we are not able to provide these tours, we are going to develop a new school education programme using a mix of on-port bus tours and classroom resources. We hope to have this programme in place before the end of the next financial year.

We became the naming rights sponsor for the Ports of Auckland Waka Ama Long Distance National Championship, held near the port in Ōkahu Bay. It was the first time we had sponsored this event, although not the first time we’d sponsored Waka Ama, having supported staff and whānau to compete in events in the past. This is a great fit for our sponsorship portfolio, and sits well with SeePort, Ports of Auckland Round the Bays and the Ports of Auckland Anniversary Day Regatta.

70,000

AUCKLANDERS ATTEND OUR SEEPORT FESTIVAL

Serving New Zealand's national freight needs

Our customers need a flexible and efficient supply chain and we are helping them by developing a rail-connected North Island freight hub 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 four freight hubs in operation in South Auckland, Manawatū, Bay of Plenty and 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 fully operational our inland hubs will provide 375,000 TEU per annum capacity for exporters and importers.

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 Auckland, Bay of Plenty and the lower North Island. The Waikato Freight Hub will be connected by rail to existing hubs at Wiri, Mount Maunganui and Longburn.

The first facility for Open Country Dairy – New Zealand's second-largest exporter of whole milk powder – is now open, and construction of a new road access bridge over the main trunk rail line is complete. We are talking to more potential tenants and expect further developments in the near future.

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 listen to feedback. We also conduct two formal surveys every six months to measure our performance and identify areas for future focus. The score this year has slipped slightly to 7.7/10, which mainly reflects the challenges we've had at the container terminal while we've carried out the automation work. We are even more determined to lift our game this year by delivering an excellent service during the import season and by implementing automation smoothly.

Our customers still clearly appreciate our focus and efficiency, which is why we were voted best seaport in Oceania at the Asian Freight, Logistics and Supply Chain Awards for the fourth year in a row. The awards are voted by service users, not a panel of judges, meaning the results actually represent the opinions 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 once again showed their confidence in us. We will continue to work hard to win the same vote of confidence next year.

1st

WE HAVE BEEN VOTED THE BEST SEAPORT IN OCEANIA FOR THE PAST FOUR YEARS

The economic upside to a zero-emission future

PORTS OF AUCKLAND HAS COMMITTED TO ZERO EMISSIONS BY 2040

HYDROGEN PRODUCTION AND REFUELLING FACILITY BY LATE 2020

We are investing in green hydrogen and building a hydrogen production and refuelling facility at our Waitematā port. Hydrogen is considered by many to be the most viable heavy-vehicle fuel as we transition away from fossil fuels. Hydrogen-powered vehicles emit only water and are quiet. We are partnering with Auckland Council, Auckland Transport and KiwiRail, which will invest in hydrogen fuel cell vehicles including buses and cars to utilise this facility. The facility is planned to be operational by mid to late 2020.

Good business and environmental sense

We are in a unique location where heavy vehicles from multiple sectors come together, including our own port logistics vehicles and local and regional freight, local public transport and marine vessels. In the future, trucks, trains and ferries could run on hydrogen, which would be a significant benefit for the community around us.

The low-emission choice for heavy vehicles

Hydrogen has some key advantages over the similar-sized battery electric vehicles that are in development. It provides a longer range, can manage a greater load capacity and is faster to refuel.

Supporting New Zealand's low-carbon transition

This project is a first for New Zealand. We are working closely with the Government to enable the necessary legislative requirements to make such projects possible for us and others in the future. This facility not only supports the port's goal to be zero emissions by 2040, but will help Auckland Council and the New Zealand Government to meet their goals:

- Paris Agreement targets
- Targets laid out in the Zero Carbon Bill – net zero by 2050
- Auckland Climate Action Framework
- Auckland Council has signed up to Fossil-Fuel-Free streets – C40 Cities, which commits it to:
  - procuring only zero-emission buses from 2025
  - ensuring that a major area of Auckland is zero emissions by 2030.

Skilled people, innovation and sustainable practices

Navigating the future of work

Our people are our number one priority while we look towards the future. As it is with 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 community 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' and an 'Automation Transition Support' programme to help with this. These programmes both focus on helping people through the change of automation and the wider changes in society, but we also need to train all staff in the new processes and procedures for automation. Some training is happening now, but it will increase considerably in the New Year and is a big piece of work.

Fostering a culture of innovation

The port has a history of innovation and invention, but the company has never really fulfilled the potential of the ideas and creations of its staff. For example, Ports of Auckland staff invented the capstan truck, for use when berthing ships. It was a great idea that made the job less physically demanding and safer – but we just gave the idea away and now those trucks are manufactured and sold by others. We are changing that approach. Now we not only encourage staff to share and develop their ideas, but want to capture that value for the business.

One early example of that work is the development of an electronic Master-Pilot exchange (eMPX). When a marine pilot goes go on board a ship to guide it into harbour, they share information with the ship's Master and vice versa. In the past this has been done via a paper-based system, but our marine team, working with a developer, have developed an electronic version that streamlines the process and offers several advantages. For example, pilots are able to get real-time wind and current readings via the application, as well as the latest hydrographic charts and information.

Where once we would have just developed something like this for our own use, we are currently in the process of selling eMPX to other ports and we have a high level of interest. It is just one example of how we are creating value from our ideas.

84%

DROP IN TRUCKS NOT SHOWING FOR PICK-UPS FOLLOWING NEW BOOKING SYSTEM

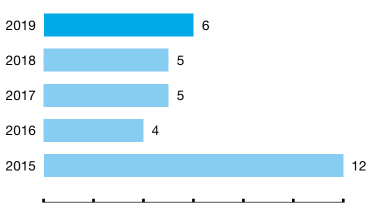
Making more of our data

Data is proving to be a highly valuable resource as we seek to improve our processes. We have always been rich in data, but only in the past couple of years have we been able to make effective use of it.

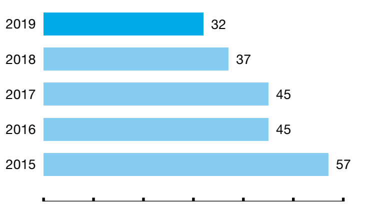
As an example, an analysis of the use of our vehicle booking system in the container terminal highlighted a pervasive gaming of the system by some companies that was resulting in a high number of ‘no-shows’, where slots were booked but not used. This was a massive waste of scarce capacity. We knew this was the case, but new tools allowed us to clearly demonstrate the scale of the waste and the impacts on our service to trucking companies. By doing this we were able to build support for action to fix the problem, and introduced a ‘no-show’ fee in June 2019.

The result has been an impressive 84% drop in ‘no-shows’ compared to February 2019 when we announced the change.

LTIs*



Medical recordable injuries*



* Injuries per 1,000,000 hours worked.

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

New approaches to safety and wellbeing

Our drive for better safety and wellbeing outcomes and commitment to zero harm require 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 we have programmes underway to ensure we continue to provide our staff with a safe and rewarding place to work.

This year one of our staff was killed in an accident at work, which is the worst possible outcome. Our response has been to put even more effort into preventing this happening again. There are two main ways of doing this. One is to create a culture of safety throughout the business that is strongly supported and led by the leadership team. We are committed to this. The second is to engineer out risk wherever we can. On that front, we have made significant progress.

A key element of the automation project is that it removes people from two critical risk areas: driving straddles; and driving on the container terminal while straddles are operating. While we are not automating our entire straddle fleet, a significant part of the fleet will be automated and that will reduce the level of risk from having drivers in machines. The automated part of the terminal will also be fully fenced and access to ships and cranes will be via a new road around the terminal perimeter. Service vehicles will use this road and will no longer be driven on an operational terminal.

In a first for New Zealand ports, we have now completed the installation of lash platforms on all our cranes and started using them in service in August 2019. Lashing staff used to work at ground level under the cranes, in the same places that straddles drove through to pick up containers. This risk was managed by creating strict processes and through training. The lash platforms are mounted on the cranes and create a safe place for staff to work above the heavy machinery below. This is a much safer option, as it removes this risk entirely. There is a slight reduction in crane rate through the use of lash platforms because it adds another step to the loading and unloading process, but it is a small price to pay for greater safety.

We have built a pedestrian tunnel to provide access to the terminal beneath roads used by straddles. Prior to the creation of the tunnel, staff accessed the terminal by means of a light-controlled pedestrian crossing. There was an inherent risk in this approach that has been completely eliminated by building the tunnel. Service vehicles currently still use the same light-controlled crossing, but once the tunnel is complete this will also stop.

We have built a new refrigerated container (reefer) area for use with automated straddles. Here we will be able to stack reefers four high for the first time, which raises access issues for the people who need to service their refrigeration machinery. Where previously this has involved the use of ladders to reach containers stacked more than one high, now technicians have safe access via a permanent gantry with internal stairs and handrails all around.

Ports of Auckland is fully committed to compliance with the New Zealand Port and Harbour Marine Safety Code. The Code is a voluntary national standard designed to ensure the safe management of marine activities in ports and harbours. The Code relies on a collaborative structure between Maritime New Zealand, Harbourmasters and Port Operators, and provides a standard against which Ports of Auckland can measure itself, and be measured by others.

CASE STUDY

Community engagement

SEEPORT FESTIVAL HOSTS MORE THAN 70,000 AUCKLANDERS

ENGAGING WITH OUR COMMUNITY ORGANISATIONS, INCLUDING 300 COMMUNITY MEETINGS

We strive to be an active and responsible member of the community. This means being open and transparent about how we operate. It also means supporting community activities that bring life to the waterfront and promote health and wellbeing.

A key focus for us this year has been to engage with our community regarding our need to deepen the channel. This will allow us to accommodate the larger ships that are now commonplace in global shipping. While this engagement is not a requirement of the consenting process, we are committed to being open and transparent and have actively worked to notify community groups about this issue.

Community engagement on channel deepening

All ports need to dredge berths and channels for safe navigation or to accommodate larger ships. We are applying to Auckland Council for a new 30-year consent. While public notification of this dredging is not required, we have worked hard to keep our community informed, engaging with yachting groups and community groups. We began this process six months in advance of submitting the application so that we could keep our stakeholders informed.

Welcoming Aucklanders onto the port

SeePort is our annual open weekend, where we host thousands of Aucklanders across three days. This year we focused on technology and automation, showcasing the change happening across our industry. We had great participation from our partners again this year. A highlight would have to have been the support from KiwiRail and Pollock Cranes to bring a locomotive onto the waterfront, as a way of showing how the port is part of a wider supply chain and support industry. The carnival celebrates our maritime heritage and provides a glimpse into the future of the port and shipping industry.

Maintaining regular community engagement

In the past 12 months we have had more than 300 meetings with community organisations including advocacy groups, local business communities and iwi groups. We have also developed a new relationship with the Mana Whenua Kaitiaki Forum, an organisation representing 19 Māori iwi and hapū.

Working with local school communities

We have worked with local schools to develop an education programme about the port. The objective is to provide an overview of the shipping and maritime industry and develop pathways, vocational training and potential career opportunities in the industry. Schools can learn more about the industry in the classroom as well as coming on site for tours and to meet the team.

SKILLED PEOPLE, INNOVATION AND SUSTAINABLE PRACTICES

Diversity and inclusion

Diversity and inclusion are key priorities as part of our people and culture strategy. In part this is values based; it is simply wrong to discriminate against people either intentionally or unintentionally. However, if we are being honest there is also an element of self-interest. Diverse businesses perform better. Having a range of people from a range of backgrounds leads to a diversity of thought, and new solutions to old problems.

This is a work in progress for us. We are doing better in some areas than in others, but we are changing.

Ports are part of a male-dominated industry, but we now have a much more welcoming environment for women. We have more women at all levels of the company than ever before, but we are still a long way from a 50:50 gender split. We have a target to increase the number of women in our workforce from 20% to 30%, and we are now at 21%. We will continue to focus on the barriers and biases (many unconscious) that prevent women considering careers in our industry.

117

WOMEN WORKING AT THE PORT

40

NUMBER OF NATIONALITIES REPRESENTED AT THE PORT

In 2018 we reviewed pay equity in different types of positions and found that there were gaps at team leader and management levels. Some female managers were being paid less than their male counterparts. Salaries were adjusted as a result and we are confident that pay equity has been addressed.

One initiative we have implemented to stop the gap re-emerging is to ensure staff on parental leave (who are mostly female) receive an annual salary review while on leave, so that when they return to work they have not fallen behind. Research shows that a failure to do this is a significant factor in increasing the gap between male and female pay.

We are now addressing the gender pay gap (GPG), which is the difference in pay between the average male and the average female in the business.

Taking the basic pay (excluding bonuses and benefits) of all staff, from chief executive to front-line staff, but excluding casuals on highly variable hours, we have found that as of 9 August 2019:

- GPG using **mean** = -1% (i.e. women are earning marginally more than men
- GPG using **median** = -19% (i.e. women are earning 19% more than men
- Based on 555 staff, 443 male and 113 female.

The difference between the mean and median is due to the large number of stevedores; stevedores are predominantly still men.

We get a different picture if we focus predominantly on salaried staff.

- GPG using **mean** = 30% (i.e. men are earning 30% more than women)

- GPG using **median** = 25% (i.e. men are earning 25% more than women)
- Based on 183 staff, 109 male and 73 female.

Our GPG figures reflect the fact that most women at Ports of Auckland work outside the operational areas, where salaries are generally higher but where there is a large GPG between men and women in these roles.

Most Executive and senior manager positions are held by men, although the balance has changed recently with the appointment of two more women to the Executive and another female senior manager. Another factor is that many non-managerial roles outside stevedoring that have high remuneration – such as marine pilots and operational managers – are still predominantly held by men.

To reduce the GPG we are actively developing women leaders through the various Global Women programmes and support for WISTA (the Women's International Shipping and Trading Association). This is to ensure that women are receiving the development they need to move to more senior positions, which are usually more highly paid.

Significant advances have been made within ICT, traditionally a male-dominated domain, with three women now in ICT management and another three at team leader level. There are now two women in leadership positions within the Commercial Team and a woman has been appointed as the new Senior Manager Safety and Wellbeing.

A pipeline is being developed in Operations, with two women in departmental management positions (Control and Capacity, and Road Office) and three more at team leader level. There is also a woman currently in training as a marine pilot, the first woman to do this at Ports of Auckland. However, our only

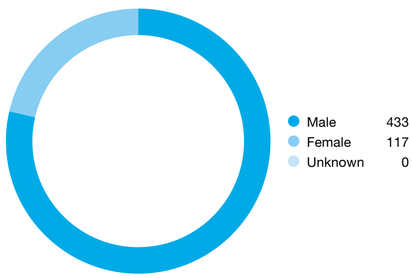
Having a range of people from a range of backgrounds leads to a diversity of thought, and new solutions to old problems.

female engineer has recently resigned so there are no longer any female engineers or civil engineers. Female representation across Marine and Operations is still below 20% so there is still work to do.

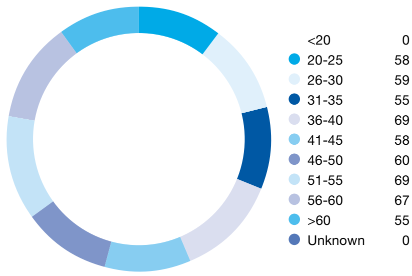
To increase overall female participation in the workforce, recruiters are being asked to ensure that they field women candidates for all roles where possible. This measure was introduced after a recruiter did not put any women forward for the stevedoring manager role and when questioned said they had assumed we would rather have a man in the position and so had screened out the female applicants.

To try to further eliminate bias, 'blind' CV vetting has been introduced. Information relating to gender, ethnicity and age is removed before the hiring manager receives the CV. These initiatives will be monitored to see if more female and ethnically diverse candidates move through to interview.

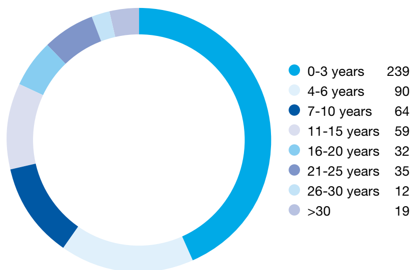
Staff gender balance



Staff age profile*



Staff years of service*



High-performance coaching for a high-performing culture

5 CREW COACHES SUPPORTING OUR 10 STEVEDORING CREWS

PROMISING RESULTS ACROSS ALL KEY MEASURES

There is a lot of change happening at the port. We are focused on supporting our team through these changes, which are exciting but can also cause uncertainty. The stevedore team has been one of the most affected and experienced a drop in morale. We have acted fast to address this, with a six-month trial of a new high-performance coaching programme. We are only two months in, but the results are more than encouraging.

One-on-one engagement and support

The stevedoring team has been divided into 10 'crews', each with its own coach. Each coach oversees their crew's work and has one-on-one meetings with individual crew members every month to talk about things like performance and safety. This new approach to stevedoring management is blended with the principles of Situational Leadership® II, an existing people development framework for managers and leaders. Together these frameworks encourage enhanced communications and positive reinforcement. Our stevedores are responding well to the change: feedback to date has been extremely positive and the programme is driving real behaviour change.

Focused career planning

The programme encourages each team to work with their coach to plan their career paths in a way that has never been done before. Training is provided in a range of areas relevant for current and new roles at the port.

Early days, but results speak volumes

Feedback to date has been extremely positive – and this is evident in the key metrics. The teams are focused on three key measures – time in the seat, attendance and safety compliance. All three measures are up.

SKILLED PEOPLE, INNOVATION AND SUSTAINABLE PRACTICES

We celebrate cultural events like Christmas, Matariki and Diwali at appropriate times of the year.

Diversity doesn't end at gender. Ethnicity and age diversity is also a key priority for us. We currently have people from more than 40 ethnicities working here, more than 20 languages are spoken fluently across the port, and employees span a wide range of age groups. This provides us with fresh perspectives and ideas, while also ensuring that we retain experience and expertise in the business.

Our 360 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 for the executive team – hence the '360' tag. Young people grow up in a world vastly different from the young years of many of our executive team, so the new perspectives they offer are extremely valuable. They are our future leaders, and it makes sense to us to give them roles in shaping our future.

This year, for the first time, we have hired a graduate from Ngāti Whātua Ōrākei as part of the 360 Graduate programme. When we undertook our materiality assessment for the 2018/19 Annual Report, one of the things it highlighted was that our connection with iwi was poor. We want to change this, and in a way that pays more than lip service to engagement. We want a meaningful and long-term partnership. The idea for an iwi graduate came about during a visit to Ōrākei Marae earlier this year, and we have had a long connection with members of Ngāti Whātua Ōrākei iwi, many of whom have worked at the port. Our first iwi graduate, Kahurangi Morehu, has such a connection – he is the fourth-generation Morehu to work at the port.

3

NUMBER OF GRADUATES IN OUR 360 GRADUATE PROGRAMME

We hope through this partnership to be able to pass on our knowledge to a young person keen to build his career and in return gain insights from his perspective as a young Māori. In future years we hope we will be able to extend this programme to include young people from other iwi.

We all like food here at the port, and that creates another opportunity to share our diversity as we celebrate cultural events such as Christmas, Matariki and Diwali at appropriate times of the year. Our Matariki celebration this year was the biggest yet, with hangi food for everyone on shift for the day and kapa haka performances from Finlayson Park School (who are national champions) and our own kapa haka group (who are aspiring champions!).

On a mission to reduce emissions

Ports of Auckland has an ambitious goal to become zero emissions by 2040. In 2017 we measured our greenhouse gas emissions for the first time giving us the valuable insight required to understand and manage our emission sources. It is an exciting time for us with huge potential to lower our emissions.

We are ambitious in our sustainability goals and support the country's aim to become a low-carbon economy. We were pleased to be invited to speak at the Government's Just Transition Summit in Taranaki in May. The focus of this conference was on beginning the national conversation about how, as a country, we will make this important transition in a way that supports our workers and communities. We understand it will not be easy, but we are committed to making this transition and were pleased to be able to share our story and progress so far.

Climate Leaders Coalition

The Climate Leaders Coalition was launched in July 2018 to promote business leadership and collective action on the issue of climate change. Ports of Auckland was one of the 13 founding partners, and now more than 110 companies have signed a joint statement that commits them to taking voluntary action on climate change.

Partnership is vital to the success of the fight to reduce emissions. When we first decided to tackle this issue we were pretty much working on our own, but we always knew that we needed to join with others to really get things moving. The Coalition also represents a unique opportunity for businesses to work together and learn from each other.

In joining the Coalition we have given a commitment to measure and publicly report our greenhouse gas emissions, to set a public emission-reduction target, and to work with suppliers to reduce their emissions. Coalition members also support the Paris Agreement and New Zealand's commitment to it, the introduction of a Climate Commission and carbon budgets enshrined in law.

The Coalition's goal is to help New Zealand transition to a low-emission economy and, in doing so, create a positive future for New Zealanders, businesses and the economy.

Our emissions this year

In the 2019 financial year we have seen a decrease of 3% in our Total Greenhouse Gas (GHG) emissions (scope 1,2 and 3) from 17,108 tCO2e in 2018 to 16,679 tCO2e (unaudited) in 2019. The emissions we control (scope 1 and 2) fell 6% from 14,683 tCO2e in 2018 to 13,875 tCO2e in 2019. This year we implemented a new emissions management reporting tool called BraveGen, in addition we have also broadened our emissions reporting to build on our scope 3 inventory set. 2019 will be our third year achieving certification via Enviro-Mark Solutions Certified Emissions Management Scheme (CEMARS).

2020

YEAR WHEN OUR HYDROGEN PRODUCTION PLANT WILL BE OPERATIONAL

2040

YEAR WHEN THE PORT WILL BECOME EMISSIONS FREE

The most significant influence for the reduction in our emissions can be directly correlated with the drop in our TEU throughput. Diesel accounts for 86% of our total emissions so when we move less cargo our diesel consumption goes down. We have seen additional diesel consumed for the assembly and testing of our automated straddles. Our second largest emissions source is electricity which accounts for 10% of our total emissions. There has been a 6% drop in electricity consumption and a 23% drop in electricity emissions this year. This can be attributed to fewer reefer containers, fewer crane moves, the rollout of LED lighting in our office buildings and flood lights, plus an 18% drop in the MfE emission factor. We have had a busy year developing a comprehensive emission reduction roadmap which details a variety of projects and timeframes for achieving the reductions required to meet both our zero emissions by 2040 goal and our commitment to the Science-Based target initiative (SBTi) to keep global warming at well below 2 degrees. The big news in our emissions reduction plans this year have been our hydrogen project and buying an electric tug.

Hydrogen

In a first for Auckland, we have committed to build a hydrogen production and refuelling facility at our Waitematā port. We will trial the hydrogen in port equipment, and we are partnering with Auckland Council, Auckland Transport and KiwiRail, which will invest in hydrogen fuel cell vehicles including buses and cars.

We are trialling hydrogen because we need a renewable and resilient power source for heavy equipment such as tugs and straddle carriers. While significant advances are being made in battery technology hydrogen could be a better solution long term as it can be produced and stored on site, allows rapid refuelling and provides greater range than batteries.

SKILLED PEOPLE, INNOVATION AND SUSTAINABLE PRACTICES

We are leading on the project, funding the construction of a facility that will produce hydrogen from tap water. The process uses electrolysis to split water into hydrogen (which is then stored for later use) and oxygen, which is released into the air. Demonstration vehicles will be able to fill up with hydrogen at the facility, which will be just like filling up a car with CNG or LPG. Hydrogen is used in a fuel cell to make electricity to power the vehicles, which emit only water.

If this trial is successful, the technology would have very wide applications. It could help Auckland and New Zealand towards energy self-sufficiency and meeting our emission-reduction goals. Trucks, trains and ferries could also run on hydrogen, which would be a significant benefit for the community around us. As well as emitting only water, hydrogen-powered vehicles are quieter than petrol or diesel vehicles.

When we announced the project, we hoped to be producing hydrogen within 12 months, but this is looking unlikely. There are a number of challenges with delivering a first of its kind project like this. Developing a robust and safe design, undertaking detailed hazard analysis and navigating the legislative requirements have all taken longer than first planned but we are confident that it has been time well spent and will contribute to a successful project.

We are pleased with current progress. Resource consent has been lodged, and plant procurement is progressing with evaluations of Request For Proposal submissions currently underway. We hope to have the plant operational by mid to late 2020.

Electric tug

Our plans for a world-first electric tug were announced in August 2019, but the preparation has been underway since 2016.

When we first set our sights on becoming emissions free by 2040 it became obvious that replacing our heavy diesel-powered equipment was going to be especially challenging, because zero-emission technology for this equipment wasn't yet available. However, the need for it was also urgent. Tugs, for example, are long-lived assets, with lives of 25 years or more. With a tug due for replacement in 2022, if we couldn't find a zero emission version soon, we would not be able to meet our target as cost effectively.

The process of procuring this tug is a perfect example of why setting targets – and ambitious targets – is important in the fight against climate change. When we first approached manufacturers in 2016 asking about battery-powered tugs, we were told they weren't possible. We were literally told we were dreaming.

However, with persistence, we found a partner willing to explore the possibilities and that has resulted in the development of this trailblazing tug. It will cost us more than a regular tug, but we believe it is important to demonstrate that our commitment to fight climate change is not just words. We think leadership in this area is important. As a bonus, the operating costs of an electric tug are significantly lower than those for diesel. So while it costs more to buy, our electric tug will be cheaper in the long term.

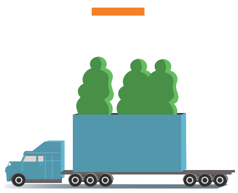
We also need to think about the cost of projects like this in terms other than money. A diesel tug emits pollutants such as nitrous oxides and particulates, and it contributes to underwater noise. Removing the noise and emissions at source is a benefit for the community and the environment. If you like, it's an environmental and community dividend, alongside the financial and economic dividends the city earns from our operations.

The tug will come with a back-up diesel generator as a safety measure, but it is expected that it will only be used on rare occasions. Should our hydrogen trial be successful, there is also potential to retrofit the tug with hydrogen technology. Then we would be able to generate our own fuel on port – ideally using renewable energy generated on site.

Environmental management

As a key step in implementing our sustainability road map, in November 2018 we received Diamond certification from Enviro-Mark Solutions for our Environmental Management System (EMS). Diamond certification is the highest level, and meets and exceeds the requirements of ISO 14001.

This was the first time we had sought formal certification for our EMS and it provided an opportunity for a comprehensive review of what we had in place and to bring together various environment-related management requirements into one management system. Gaining the top level of certification at our first attempt is quite an achievement and I would like to thank the team for completing this work.



24.3

TONNES OF ORGANIC MATTER SENT TO COMPOSTING FACILITY RATHER THAN LANDFILL

Reducing waste

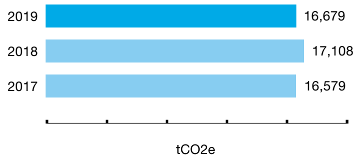
I talked last year about the importance of waste reduction to the company and to many of our staff. When we first started developing a sustainability strategy, this was one of the topics that really got people wound up – especially the use of non-recyclable single-use coffee cups. A group of staff volunteered to join a 'Waste Team' to help the company toward our goal of sending zero waste to landfill by 2040, with an interim target of 70% diversion of waste from landfill by the end of 2019.

In 2019 we have seen a 30% reduction in total waste (recycled and landfill) and we lifted our waste to landfill diversion rate from 57% in 2018 to 59% in 2019. Examples of waste we send to recycling centres include organics, wood, paper, scrap metal, cardboard and co-mingled.

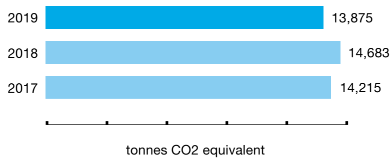
Our Waste Team reports on progress and updates staff with new initiatives, keeping the programme top of mind. The team also casts an eye on procurement, with a view to selecting products that help waste minimisation. A small example of this is the installation of hand dryers in many of our toilets, replacing paper towels and eliminating a waste stream at source.

With plenty of scope for improvement, we are now turning up the dial on awareness and education, using workplace champions to spread the word and show the way for the rest of us to do our bit for a zero-waste workplace.

Total gross emissions (scope 1, 2 and 3)

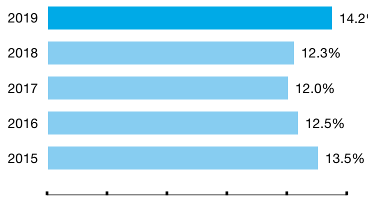


Total gross controlled emissions (scope 1 and 2)

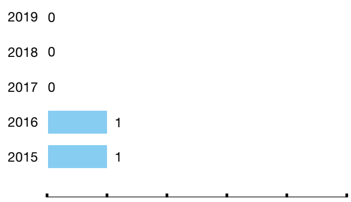


NOTE: We have restated our 2018 total emissions to 17,017 tCO2e from 16,798.95 tCO2e reported last year. This is because we have added in additional data sources in 2019 and applied them to our 2018 data – included in these are: waste oil, hotel stays, recycled waste and copy paper.

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



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.

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. Liz is a Chartered Fellow of the Institute of Directors in New Zealand and Chartered Fellow of Chartered Accountants Australia and New Zealand.

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

Rodger Fisher

CFInstD FCIS FIMNZ FCILT

Deputy Chair

Rodger was appointed a Director in December 2013. He was a Director of the Lyttelton Port Company from 2003 to 2013 and Chair from 2007. He is currently Chair of The Property Group and a Director of TPGH Limited. He was Managing Director of Owens Group from 1987 to 1999 and has previously been Chairman of WEL Networks, Ultrafast Fibre, 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. He is currently Chair of Centauri Communities Limited.

Andrew was formerly an executive with Foster's Group where he ran the import arm of the Foster's business in Australia, and was Managing Director of Foster's Group New Zealand and also Managing Director and Chairman of Foster's Group Pacific in Fiji.

Patrick Snedden

MNZM BCom BA

Director

Pat has been a Director since May 2012. He is Chair of the Auckland District Health Board and Deputy Board Chair of the Counties Manukau District Health Board. He has been a Treaty of Waitangi negotiator for both iwi and the Crown. He has previously chaired the Housing New Zealand Corporation 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.

Sarah Haydon
BSc FCA CMInstD

Director

Sarah was appointed a Director in August 2016. She is Deputy Chair of The Co-operative Bank and the Institute of Geological and Nuclear Sciences. 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 in New Zealand.

Sarah has previously been Chair of Cavalier Corporation, a Director of AsureQuality Limited and Chief Financial Officer of OfficeMax New Zealand Limited. Her previous executive roles were with British Petroleum plc.

Karl Smith
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 Lyttleton Port Company, Geosystems New Zealand, Building Point New Zealand, Sitech Construction NZ and The Crusaders Partnership. He is currently Chair of Hall's Group and FortHill Property and a Director of VetNZ and Hamilton Jet.

He is a Chartered Member of the Institute of Directors in New Zealand and a graduate of the Advanced Management Program at Harvard Business School. Karl is also a Chartered Accountant and in February 2018 become a Fellow of Chartered Accountants Australia and New Zealand.

Bill Osborne
MBA CMInstD

Director

Bill Osborne was appointed a Director in May 2017. Bill is a professional director and chairs PlantTech Research Institute and Page & Macrae Limited and is on the board of Transpower. He is currently the President of New Zealand Rugby, having previously served as a Director of the Chiefs Rugby Club and New Zealand Māori Rugby.

He has an extensive business background, including past roles as Group Manager International for New Zealand Post, Chief Executive of Quotable Value New Zealand, inaugural Chairman of 2 Degrees Mobile and Chair of CoreLogic New Zealand. He has served on 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.

Meet our Executive team

Tony Gibson

Chief Executive Officer

Tony joined Ports of Auckland in early 2011. He has more than 30 years' experience in shipping and logistics, and has worked in various senior roles in Africa, Asia and Europe, including European Director of Customer Operations, Rotterdam, before being appointed Managing Director P&O Nedlloyd, New Zealand and Pacific Islands in 2002. Following a take-over by Maersk, Tony served as Managing Director of Maersk New Zealand for three years. He is Chairman of North Tugz Ltd, Nexus Logistics and Conlinxx Ltd and a Director of AMG Consulting Ltd, Seafuels Ltd, Waikato Freight Hub, ERoad Financial Services Ltd. He is also a Director and Shareholder of ERoad Ltd. Mr Gibson joined the Board of Marsden Maritime Holdings Ltd in April 2018 and is considered to be a Non-independent Director and Chair of the Marsden Maritime Holdings Ltd's Remuneration Committee.

Wayne Thompson

Chief Financial Officer and Deputy Chief Executive Officer

Wayne joined Ports of Auckland in 2004. As Chief Financial Officer, 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 Chief Financial Officer at Owens Group, a publicly listed freight and logistics company, and prior to that he 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.

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 Limited, before his appointment as Managing Director for Bax Global New Zealand Limited in 2001. Following this he returned as Managing Director at Schenker New Zealand in 2006. Reinhold also served as Chief Executive of CONLINXX for four years. He brings a wealth of experience and industry knowledge to Ports of Auckland.

Angelene Powell

General Manager Container Terminal Operations

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

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.

Rosie Mercer

General Manager Sustainability

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

Matt Ball

General Manager Public Relations and Communications

Matt joined Ports of Auckland as Head of Communications in early 2012 after returning to New Zealand from the UK. His appointment as General Manager Public Relations and Communications reflects the importance of communication to the business, and an emphasis on greater community engagement and increased transparency Matt is responsible for all of our internal and external communications, including employee communications, community engagement, sponsorships, our annual SeePort Festival (attended by over 70,000 people), media relations and relationships with political stakeholders. Matt has over 20 years' experience in communications, with roles in the New Zealand Parliament in the late 1990s and with British Rail and London Underground in the UK.

Corporate governance

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

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

Principle 1
Code of Ethical Behaviour

Our Board has adopted a Code of Ethics, which documents the standards of ethical behaviour to which the company's 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 that would not otherwise have been available to them.

Principle 2
Board Composition and Performance

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

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

No Directors resigned and no new Directors were appointed during the year. Directors are encouraged to keep up to date on governance matters and trends, and those that affect our business or industry. All Directors have access to Executive members and Executive members frequently present to the Board. Biographies of our Directors are provided on page 50, 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 diverse 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 42.

In March 2019 we welcomed Claire Neville as our second 'Future Director' under the Institute of Directors' 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 a board and as such hold no voting rights and do not contribute to the quorum. They are not part of the formal decision-making process but are there to observe and participate in discussions.

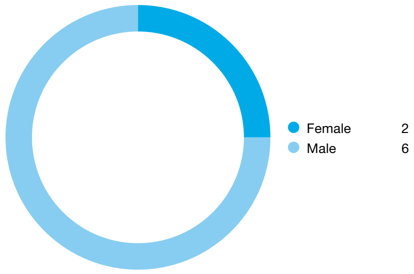
Claire is currently General Manager Operations at New Zealand Bus, a public transport company with operations in Auckland, Wellington and Tauranga, and is a Director of New Zealand Bus Tauranga Limited. Prior to New Zealand Bus, she worked with major engineering consultancies in both New Zealand and the Republic of Ireland with a focus on transport strategy and planning. She is a chartered civil engineer.

Also in March 2019 Siobhan McKenna, our first 'Future Director', stood down after her engagement was completed.

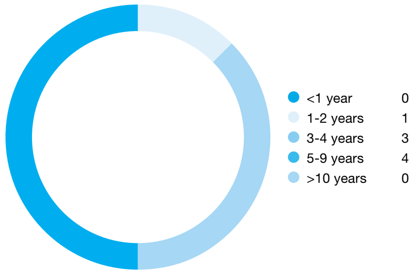
Principle 3
Board Committees

Our Board is supported by two Committees, the Audit Committee and the Remuneration Committee. The Audit Committee supports our Board in fulfilling its responsibilities with respect to financial reporting, external audit and internal audit.

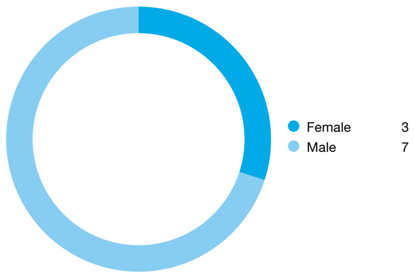
Board gender



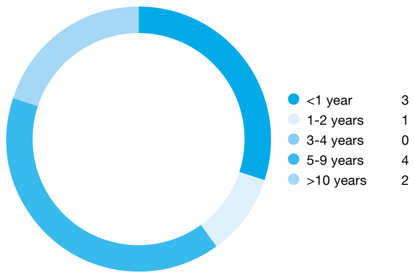
Board length of service



Executive team gender



Executive team length of service



The Remuneration Committee supports our Board in fulfilling its responsibilities with respect to remuneration and incentive policies, practices and performance indicators. Our Board and its Committees have charters that set out their authorities, responsibilities and processes and these are available on our website.

Principle 4 Reporting and Disclosure

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

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

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

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 5 Remuneration

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

Total remuneration paid to our Directors for the year was $622,000. Our Directors undertake site visits and meet with management for briefings as well as attend formal Directors' meetings.

Director remuneration and attendance at the formal Directors' meetings for the year ending 30 June 2019 are set out in the table opposite.

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

Garrie Hoddinott is an independent Director of both Nexus Logistics Limited and CONLINXX Limited and is not an employee. Mr Hoddinott was paid director fees totalling $60,000 for the year ending 30 June 2019. In addition Mr Hoddinott was paid $15,600 in non-director remuneration.

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

SALARY BAND	CURRENT	REDUNDANCY/ SEVERANCE	RESIGNED	CURRENT AND TERMINATED
$100K > $110K	75	0	4	79
$110K > $120K	56	0	3	59
$120K > $130K	42	0	3	45
$130K > $140K	24	0	3	27
$140K > $150K	18	0	1	19
$150K > $160K	10	0	2	12
$160K > $170K	11	0	1	12
$170K > $180K	6	0	0	6
$180K > $190K	2	0	0	2
$200K > $210K	1	0	0	1
$210K > $220K	1	0	0	1
$220K > $230K	4	0	1	5
$230K > $240K	2	0	0	2
$240K > $250K	1	0	0	1
$250K > $260K	2	0	0	2
$270K > $280K	3	0	0	3
$280K > $290K	2	0	0	2
$290K > $300K	1	0	0	1
$310K > $320K	0	1	0	1
$320K > $330K	1	0	0	1
$330K > $340K	1	0	0	1
$340K > $350K	2	0	0	2
$350K > $360K	2	0	0	2
$360K > $370K	2	0	0	2
$370K > $380K	1	0	0	1
$380K > $390K	1	0	0	1
$480K > $490K	1	0	0	1
$900K > $910K	1	0	0	1
	273	1	18	292

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.

Our risk management maturity was assessed during the year as part of our internal audit programme.

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

Principle 7 Auditor

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. We also contracted Deloitte Limited to 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.

Principle 8 Shareholder Rights and Relations

On 2 July 2018 Auckland Council Investments Limited transferred 100% of Ports of Auckland Limited's 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 each party respect the role and responsibilities of the other party and that both work constructively with each other
- acknowledges that all decisions relating to our business are made by our Board of Directors in accordance with our Statement of Corporate Intent
- sets out processes for Board appointments, Director remuneration, Board reviews, dispute resolution and the monitoring, reporting and disclosure of information.

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

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

DIRECTOR	ATTENDANCE AT BOARD MEETINGS	ATTENDANCE AT AUDIT COMMITTEE MEETINGS	ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS	TOTAL REMUNERATION PAID FOR THE YEAR	COMMENTS
Liz Coutts	10/10	6/6	4/4	$132,000	Appointed 20 December 2010 Board Chair Remuneration Committee Chair Audit Committee member
Rodger Fisher	10/10	6/6	4/4	$90,000	Appointed 5 December 2013 Deputy Board Chair Audit Committee member Remuneration Committee member
Sarah Haydon	9/10	6/6		$81,000	Appointed 1 August 2016 Audit Committee Chair
Andrew Bonner	10/10		4/4	$66,000	Appointed 14 December 2009 Remuneration Committee member
Pat Snedden	10/10			$66,000	Appointed 2 May 2012
Jon Mayson	7/9			$55,000	Appointed 1 October 2014 Extended leave of absence from 1 March 2018 to 31 August 2018
Karl Smith	8/10			$66,000	Appointed 1 October 2016
Bill Osborne	10/10		4/4	$66,000	Appointed 1 May 2017 Remuneration Committee member

Deloitte.

Independent Auditor's Report

TO THE READERS OF PORTS OF AUCKLAND LIMITED GROUP'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 59 to 105, that comprise the statement of financial position as at 30 June 2019, 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 2019; 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 26 August 2019. 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 obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 56, but does not include the Group financial statements, and our auditor's report thereon.

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

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

Independence

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

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
26 August 2019
Auckland, New Zealand

This audit report relates to the financial statements of Ports of Auckland Limited and its New Zealand domiciled subsidiaries and other controlled entities (collectively referred to as 'the Group') for the year ended 30 June 2019 included on Ports of Auckland's website. The Board of Directors is responsible for the maintenance and integrity of Ports of Auckland's website. We have not been engaged to report on the integrity of Ports of Auckland's website. We accept no responsibility for any changes that may have occurred to the financial statements of the Group since they were initially presented on the website. The audit report refers only to the financial statements of the Group named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements of the Group and related audit report dated 26 August 2019 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements of the Group may differ from legislation in other jurisdictions.

Group Financial Statements

Income statement

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 $'000	2018 $'000
Revenue	A1	**248,059**	243,201
Expenses			
Operating expenses	A2	**(155,416)**	(142,110)
Depreciation and amortisation	B1, B4	**(23,579)**	(22,991)
Finance costs	A2	**(18,419)**	(12,616)
Total expenses		**(197,414)**	(177,717)
Net (impairment) / reversal of impairment of assets	B1, B4	**(455)**	1,876
Fair value change to investment properties	B3	**9,819**	16,917
Loss on disposal of investment property held for sale		**-**	(1,159)
Impairment of investments	F1, G1	**(466)**	-
Share of profit from equity accounted investments	F1	**2,473**	2,418
Profit before income tax		**62,016**	85,536
Income tax expense	A3	**(8,094)**	(8,700)
Profit for the period attributable to the owners of the Parent		**53,922**	76,836

Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2019

	NOTES	2019 $'000	20187 $'000
Profit for the period		**53,922**	76,836
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	**33,745**	30,440
Net change in fair value of equity securities (at fair value through other comprehensive income)	F3, E1	**411**	-
Items that will not be reclassified to the income statement		**34,156**	30,440
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges, net of tax	E1	**(3,845)**	5,078
Net change in fair value of equity securities (available-for-sale)	F3, E1	**-**	7,397
Items that may be reclassified subsequently to the income statement		**(3,845)**	12,475
Other comprehensive income net of income tax		**30,311**	42,915
Total comprehensive income for the period net of tax attributable to the owners of the Parent		**84,233**	119,751

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 2019

	NOTES	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	D1	**9,369**	1,301
Trade and other receivables	D2	**39,480**	34,269
Inventories	D3	**4,301**	4,130
Derivative financial instruments	G2	**157**	3,724
Non-current assets held for sale	H1	**56,000**	18,406
Total current assets		**109,307**	61,830
Non-current assets			
Property, plant and equipment	B1	**1,061,610**	936,744
Intangible assets	B4	**71,070**	44,293
Investment properties	B3	**143,304**	184,284
Equity securities	F3	**43,560**	43,149
Investments in other entities	F1	**2,504**	2,815
Total non-current assets		**1,322,048**	1,211,285
Total assets		**1,431,355**	1,273,115
Current liabilities			
Interest bearing liabilities	E3	**2,805**	7,594
Trade and other payables	D4	**43,317**	38,132
Provisions	D5	**10,795**	10,575
Derivative financial instruments	G2	**475**	1,328
Deferred income		**22**	21
Other current liabilities		**15**	2,960
Total current liabilities		**57,429**	60,610
Non-current liabilities			
Interest bearing liabilities	E3	**495,287**	377,354
Derivative financial instruments	G2	**9,523**	6,897
Provisions	D5	**1,293**	1,033
Deferred income		**558**	578
Deferred tax liabilities	A3	**67,460**	68,897
Total non-current liabilities		**574,121**	454,759
Total liabilities		**631,550**	515,369
Net assets		**799,805**	757,746
Equity			
Share capital		**146,005**	146,005
Reserves		**273,402**	251,632
Retained earnings		**380,398**	360,109
Total equity	E1	**799,805**	757,746

These financial statements were approved by the Board on 26 August 2019.

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 2019

	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP SHARE CAPITAL $'000	OTHER RESERVES $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2017		**146,005**	**208,717**	**329,673**	**684,395**
Profit for the period		-	-	76,836	76,836
Other comprehensive income	E1	-	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**
Change in accounting policy	A1	**-**	**-**	*(663)*	***(663)***
Balance at 1 July 2018, as restated		**146,005**	**251,632**	**359,446**	**757,083**
Profit for the period		-	-	53,922	**53,922**
Other comprehensive income	E1	-	30,311	-	**30,311**
Total comprehensive income		-	30,311	53,922	**84,233**
Transactions with owners in their capacity as owners					
Dividends paid	E2	-	-	(45,929)	**(45,929)**
Tax benefit of losses received from owner	E1	-	-	4,418	**4,418**
Other movements					
Revaluation reserve reclassified to retained earnings on disposal of assets	E1	-	(8,541)	8,541	**-**
Total other movements		-	(8,541)	(32,970)	**(41,511)**
Balance at 30 June 2019	E1	**146,005**	**273,402**	**380,398**	**799,805**

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 2019

	NOTES	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		282,023	278,384
Payments to suppliers and employees		(193,203)	(176,229)
Dividends received		3,666	3,649
Interest received		126	27
Interest paid		(18,567)	(12,911)
Income taxes paid		(5,905)	(6,648)
Net cash flows from operating activities		68,140	86,272
Cash flows from investing activities			
Payments for investment property		(10,348)	(10,790)
Payments for intangible assets		(30,885)	(23,588)
Payments for property, plant and equipment		(102,446)	(93,424)
Interest paid - capitalised		(3,454)	(2,554)
Advances to related parties		(50)	(60)
Proceeds from sale of property, plant and equipment		17,829	2,051
Proceeds from sale of investment properties		2,000	4,821
Repayment of loans by related parties		-	229
Net cash flows from investing activities		(127,354)	(123,315)
Cash flows from financing activities			
Proceeds from borrowings		1,083,002	968,500
Repayment of borrowings		(965,002)	(882,500)
Dividends paid	E2	(45,929)	(49,860)
Net cash flows from financing activities		72,071	36,140
Net cash flows		12,857	(903)
Cash at the beginning of the year		(6,293)	(5,390)
Cash at the end of the year	D1	6,564	(6,293)

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 2019

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

	2019 $'000	2018 $'000
Profit for the period	**53,922**	76,836
Adjusted for:		
Depreciation and amortisation	**23,579**	22,991
Movements in borrowings allocated to interest paid	**(67)**	(359)
Tax benefit of losses received from owner	**4,418**	3,460
Movement in deferred revenue	**(20)**	(24)
Net (gain) / loss on sale of investment property	**-**	1,159
Net (gain) / loss on sale of other non-current assets	**(215)**	628
Fair value movements in land, buildings and wharves	**(79)**	(1,876)
Fair value adjustment to investment property	**(9,819)**	(16,917)
Impairment of investments	**466**	-
Impairment of other intangible assets	**534**	-
Change in operating assets and liabilities:		
Trade and other receivables	**(4,795)**	(2,183)
Trade and other payables	**3,064**	582
Income tax payable	**(416)**	(518)
Deferred tax liability	**(1,436)**	(1,662)
Other provisions	**480**	1,861
Other operating assets	**(171)**	(1,012)
Movement in associates and joint ventures	**(106)**	(48)
Capital items included in working capital movements	**(1,199)**	3,354
Net cash flows from operating activities	**68,140**	86,272

Reconciliation of liabilities arising from financing activities to cash flows

	2019 $'000	2018 $'000
Interest bearing liabilities		
Opening interest bearing liabilities (excluding overdraft)	**377,354**	291,713
less establishment fees (classified as interest paid under operating activities)	**(67)**	(359)
Cash movements		
Repayment of bank debt	**(965,002)**	(882,500)
Proceeds from borrowing	**1,083,002**	968,500
Closing interest bearing liabilities (excluding overdraft)	**495,287**	377,354

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 2019

Reporting entity and nature of operations

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

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

Statutory base

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

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

All subsidiaries are incorporated in New Zealand.

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

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

Basis of preparation

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

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

The Group financial statements were approved by the Board of Directors on 26 August 2019.

Basis of measurement

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

Accounting policies

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

Basis of consolidation

The Group financial statements incorporate the assets, liabilities, and results of the subsidiaries, accounted for using the acquisition method, and the results of its associates and joint ventures, accounted for using the equity method.

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

Foreign currency translation

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

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

Goods and services tax (GST)

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

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

New and amended international financial reporting standards

The following standards came into effect from 1 July 2018.

NZ IFRS 9 Financial Instruments

NZ IFRS 9 replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

For the Group, this has meant a change in the way financial assets are assessed for impairment (refer to the credit risk disclosure within note G1), and a change in the classification of the Groups equity investment from available-for-sale to fair value through other comprehensive income (refer to the financial instruments disclosure within note G1). The Group's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and these relationships are therefore treated as continuing hedges.

In accordance with the transitional provisions within the standard, comparative figures have not been restated.

NZ IFRS 15 Revenue from Contracts with Customers

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.

The Group has transitioned 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.

Refer to note A1 for the detailed disclosures and quantitative impact of adopting the standard.

Standards and interpretations in issue not yet adopted

The following standard comes into effect from 1 July 2019.

NZ IFRS 16 Leases

The Groups intention is to 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 lease 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 Company is lessee of land and a subsidiary leases a fleet of trucks. The Group is currently finalising the extent of the impact, however the balance sheet will be grossed up (a right-of-use asset and lease liability will exist), and there will be timing implications for profit or loss, as lease expense will make way for interest expense and depreciation.

Specialised leasing software has been deployed, to ease transition.

The following standard comes into effect from 1 July 2020.

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

No assessment has been made on the impact of this standard.

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

	2019 $'000	2018 $'000
Revenue		
Revenue from contracts with customers*	**230,890**	236,609
Rental income	**11,057**	5,248
Gain on disposal of property, plant and equipment	**1,385**	38
Dividend income	**1,299**	1,279
Interest income	**126**	27
Other income	**3,302**	-
Total revenue	**248,059**	243,201

Recognition and measurement

Revenue from contracts with customers

The Group has transitioned to NZ IFRS 15 Revenue from contracts with customers, using the modified retrospective approach with the cumulative effect of initial application flowing through opening retained earnings on the date of initial application, being 1 July 2018. Therefore, the comparative information was not restated and continues to be reported under NZ IAS 18 and related interpretations.

The Group has made an opening adjustment relating to a change in the treatment of variable consideration, of which the new standard requires the transaction price to be recorded only when the revenue is highly probable. Where consideration promised in a contract includes a variable amount, NZ IFRS 15 requires an estimate of the amount of consideration to which the Group will be entitled in exchange for transferring the promised services to a customer. The Group has estimated the amount of variable consideration using the expected value method which is a sum of probability weighted amounts in a range of possible consideration amounts.

In the prior year, Revenue from contracts with customers was disclosed as Port Operations Income and included rental income from leased property on port operated land (on the Waitematā harbour). In the current year, due to transitioning to the new revenue standard, the Group has separated rental revenue and renamed the line item. The quantitative effect of this is outlined in the table below:

$0'000s	2018 RECLASSIFIED	2018 REPORTED	*2018 MOVEMENT*
Revenue from contracts with customers*	232,020	236,609	*4,589*
Rental income	9,837	5,248	*(4,589)*
	241,857	**241,857**	

**previously reported as Port Operations Income (as reported in the 2018 Annual Report, refer to table directly above)*

The following table summarises the impact of adopting NZ IFRS 15 on the Group's statement of financial position as at 30 June 2019 and its income statement and statement of comprehensive income for the year then ended, for each of the line items affected.

$'000s	30 JUNE 2019 WITHOUT ADOPTION OF NZ IFRS 15	NZ IFRS 15	30 JUNE 2019 AS REPORTED
Balance sheet extract			
Current liabilities			
Trade & other payables	(42,030)	(1,287)	(43,317)
Non-current liabilities			
Deferred tax liabilities	(67,820)	360	(67,460)
Equity			
Retained earnings	(381,325)	927	(380,398)
Income statement extract			
Revenue	(249,346)	1,287	(248,059)
Profit before income tax	**(63,303)**	**1,287**	**(62,016)**
Income tax expense	8,454	(360)	8,094
Profit for the period attributable to the owners of the Parent	**(54,849)**	**927**	**(53,922)**
Total comprehensive income for the period net of tax attributable to the owners of the Parent	**(85,160)**	**927**	**(84,233)**

The adjustments identified in the table above relate to variable consideration, as NZ IFRS 15 requires an estimate of the amount of consideration to which the Group will be entitled in exchange for transferring the promised services to a customer, The Group has estimated the amount of variable consideration using the expected value method which is different to the methodology adopted under NZ IAS 18.

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

Marine services revenue

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

Container terminal revenue

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

Multi-cargo revenue

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

Container transportation revenue

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

A1. Revenue (continued)

Disaggregation of revenue from contracts with customers	2019 $'000	2018 $'000
Container terminal	**128,668**	134,494
Multi-cargo	**43,125**	40,391
Marine services	**39,455**	39,502
Container transportation	**19,642**	17,633
Total revenue from contracts with customers	**230,890**	232,020

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

Rental income

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

Dividend and other income

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

Interest income

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

A2. Expenses

Operating Expenses	2019 $'000	2018 $'000
Employee benefit expenses		
Salaries and wages	**71,627**	68,197
Restructuring costs	**34**	529
Pension costs	**2,470**	2,221
Total employee benefit expenses	**74,131**	70,947
Other operating expenses		
Contracted services	**37,055**	30,357
Repairs and maintenance	**14,798**	18,632
Fuel and power	**6,153**	5,145
Loss on disposal of property, plant and equipment – refer note B1	**1,170**	666
Other expenses	**21,802**	16,056
Auditor's fees		
Audit and review of statutory financial statements	**307**	307
Total other operating expenses	**81,285**	71,163
Total operating expenses	**155,416**	142,110

Finance costs	2019 $'000	2018 $'000
Interest and finance costs	**21,873**	15,170
Capitalised interest	**(3,454)**	(2,554)
Total finance costs	**18,419**	12,616

Donation expenses are $103,100 (2018: $70,900) 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.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2019

A3. Taxation

Income statement	2019 $'000	2018 $'000
Current income tax		
Current year	**6,998**	9,601
Adjustment for prior years	**779**	366
Deferred income tax		
Temporary differences	**217**	(1,213)
Adjustment for prior years	**100**	(54)
Income tax expense	**8,094**	8,700
Statement of changes in equity		
Cash flow hedges and property, plant and equipment	**(1,495)**	5,913
Income tax reported in equity	**(1,495)**	5,913

Reconciliation of effective tax rate	2019 $'000	2018 $'000
Profit before income tax	**62,016**	85,536
Tax at 28%	**17,364**	23,950
Adjustments		
Non-taxable income	**(5,407)**	(6,236)
Non-deductible expenses	**1,889**	1,591
Adjustment for prior years	**879**	313
Loss offset utilisation	**(4,790)**	(7,979)
Dividend imputation credits	**(1,426)**	(1,419)
Sundry items	**(415)**	(1,520)
Income tax expense	**8,094**	8,700

Ports of Auckland Limited will utilise losses from the Auckland Council Tax Group in the 2019 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. $4,410,000 (2018: $6,552,000) has been provided for payment to Watercare Services Limited for this subvention agreement.

Imputation credits	2019 $'000	2018 $'000
Imputation credits available for subsequent reporting periods	**72,894**	71,461

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 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**
Transition adjustment (NZ IFRS 15)	-	-	-	-	*(258)*	-	***(258)***
Balance at 30 June 2018, as restated	**(1,260)**	**68,125**	**2,020**	**2,832**	**(5,225)**	**2,147**	**68,639**
Recognised in income statement	-	801	(1,005)	390	158	(28)	**316**
Recognised in other comprehensive income	(1,495)	**-**	**-**	**-**	**-**	**-**	**(1,495)**
Balance at 30 June 2019	**(2,755)**	**68,926**	**1,015**	**3,222**	**(5,067)**	**2,119**	**67,460**

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 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**
Movement							
Additions	-	1,795	26,296	57,880	16,250	2,608	**104,829**
Disposals	-	-	-	(554)	-	(37)	**(591)**
Revaluations – Reserves	33,745	-	-	-	-	-	**33,745**
Revaluations – Income Statement	79	-	-	-	-	-	**79**
Reclassifications / Transfers	2,737	-	-	-	3,985	-	**6,722**
Depreciation charge	-	(4,673)	(891)	(9,534)	(1,818)	(3,002)	**(19,918)**
Movement to 30 June 2019	36,561	(2,878)	25,405	47,792	18,417	(431)	**124,866**
Balances							
Cost and/or fair value	378,910	317,121	43,840	212,171	79,972	52,203	**1,084,217**
Work in progress at cost	-	1,018	11,835	128,276	31,595	6,312	**179,036**
Accumulated depreciation	-	(4,874)	(1,182)	(140,026)	(17,681)	(37,880)	**(201,643)**
Net book value at 30 June 2019	**378,910**	**313,265**	**54,493**	**200,421**	**93,886**	**20,635**	**1,061,610**

Property, plant and equipment additions include capitalised finance costs of $3,454,113 (2018: $2,554,461). The average effective interest rate used is 3.9% (2018: 3.1%).

Prior year revaluations through the income statement include the reversal of an earlier impairment on Port of Onehunga of $2,184,000, refer note H1.

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 2019, all land was revalued as at 30 June 2019 in accordance with the New Zealand Institute of Valuers asset valuation standards. The valuation of land was undertaken by CBRE, registered valuers. The 2018 comparative was valued 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).

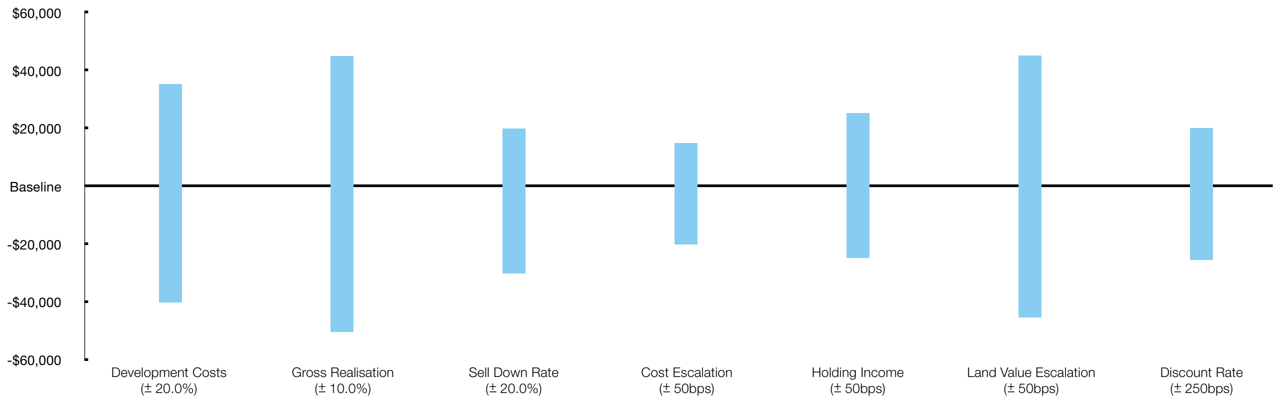
Port Operations Land has been valued using the income approach by way of a discounted cash flow model, as the primary basis. Other Operations Land is valued with a combination of the market approach using a comparable sales model and the income approach using a capitalised market income model.

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

		2019	2018
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 5 stages. Each stage will consist of 16 superlots with an average lot size of 5,000 sqm, with consenting to take 12 years and the sell down over 19 years (31 year period). The assumption in 2018 was that the land will be developed and sold in allotments of 2,300 sqm over a 30 year period, commencing in year 3. In 2019 a blended discount rate of 10.59% has been applied. This rate is lower than 2018 but in line with the extended timeframes involved and the ability to generate strong holding income pending redevelopment.	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	$5,900 per sqm, for a 5,000 sqm allotment	$5,075 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 2019 rates	Beca Group development costs updated for 2018 rates
	Discount rate	10.59%	12.85%
	Sales price escalation	2.50% over the term	Range 1.00% to 3.50% over the term
	Cost escalation	3.00% over the term	Range 2.55% to 3.00% over the term

Land value discounted cash flow sensitivity

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



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

Value sensitivity to planning timeframes	INDICATED VALUE INCREASE / (DECREASE) $'000
15 year planning & consenting period	(38,000)
18 year planning & consenting period	(73,000)

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

		2019	2018
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	$5,050 per sqm to $5,900 per sqm	$3,000 per sqm to $6,000 per sqm

Port operations wharves and freehold buildings valuation

Port operations wharves and buildings are valued at least every three years and were revalued at 30 June 2018 by John Foord (International), industrial valuers and Ortus International, registered Quantity Surveyors, to fair value.

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).

B2. Property, plant and equipment valuation (continued)

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

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

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

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

B3. Investment properties

	2019 $'000	2018 $'000
At fair value		
Balance at 1 July	**184,284**	114,835
Capitalised subsequent expenditure	**11,923**	10,850
Reclassifications / Transfers (refer note B1)	**(6,722)**	(4,918)
Transfers from / (to) assets held for sale	**(56,000)**	46,600
Net gain / (loss) from fair value adjustment	**9,819**	16,917
Balance at 30 June	**143,304**	184,284

The current year fair value adjustment includes the fair value uplift on Pikes Point of $8,260,000, prior to being classified as non-current assets held for sale, refer to note H1. In the prior year, Pikes Point was transferred from non-current assets held for sale, to investment property, as the intended sale of the property to NZTA was suspended.

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

Recognition and measurement

Investment properties

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

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

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

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

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

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

Valuation approach

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

The valuations as at 30 June 2019 were performed by Colliers International and 30 June 2018 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.

B3. Investment properties (continued)

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:

		2019	2018
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	4.25% to 6.75%	4.50% to 6.75%
Direct sales comparison A valuation technique whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.	Industrial land sales per	$190 to $620 per sqm	$190 to $530 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 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**
Movement		
Additions	30,438	**30,438**
Amortisation charge	(3,661)	**(3,661)**
Movement to 30 June 2019	26,777	**26,777**
Balances		
Cost	42,117	**42,117**
Work in progress at cost	52,589	**52,589**
Accumulated amortisation and impairment	(23,636)	**(23,636)**
Net book value at 30 June 2019	**71,070**	**71,070**

During the financial year, the Group impaired software of $533,855 (2018: $nil).

Recognition and measurement

Computer software

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

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

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

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

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).

Classification of investment properties

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

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

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

Fair value of derivative financial instruments

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

Income tax

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

	2019 $'000	2018 $'000
Cash and cash equivalents		
Cash on hand	**1**	1
Bank balances	**9,368**	1,300
Total cash and cash equivalents	**9,369**	1,301
Interest Bearing Liabilities		
Bank overdrafts – refer to note E3	**(2,805)**	(7,594)
Total cash as per statement of cash flows	**6,564**	(6,293)

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% (2018: 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

	2019 $'000	2018 $'000
Trade receivables		
Trade receivables	**30,088**	31,518
Related party receivables	**116**	45
Sundry receivables	**537**	843
Unprocessed credit notes	**(359)**	-
Provision for impairment of trade receivables	**(170)**	(131)
Net trade receivables	**30,212**	32,275
Other receivables		
Other assets	**6,974**	-
Prepayments	**2,294**	1,994
Total trade and other receivables	**39,480**	34,269

The aging of trade receivables at reporting date was:

	2019 $'000	2018 $'000
Aged receivables		
Current	**20,294**	22,083
30 days	**7,218**	7,995
60 days	**1,612**	1,174
90 days	**377**	137
Over 90 days	**703**	174
Total aged receivables	**30,204**	31,563

As at 30 June 2019 current trade receivables of the Group with a value of $8,801 (2018: $59,100) were written off.

Trade receivables of $9,381,000 (2018: $9,424,000) were past due but not impaired as at 30 June 2019. 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 2019 is 45.27 days (2018: 45.95 days).

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

Recognition and measurement

Trade receivables

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

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

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

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

D3. Inventories

	2019 $'000	2018 $'000
Inventories		
Inventories at cost	**4,125**	3,988
Net realisable value reclassification	**176**	142
Total inventories	**4,301**	4,130

The cost of inventories recognised as an expense during the year was $8,940,220 (2018: $7,677,000).

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

	2019 $'000	2018 $'000
Trade payables	20,646	18,213
Related party payables	4,611	6,668
Accruals	18,060	13,251
Total trade and other payables	**43,317**	**38,132**

Recognition and measurement

Trade and other payables

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

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

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

D5. Provisions

	2019 $'000	2018 $'000
Current		
Employee benefits	**8,962**	9,568
ACC partnership programme	**254**	223
Other provisions	**1,579**	784
Total current provisions	**10,795**	10,575
Non-current		
Employee benefits	**1,293**	1,033
Total non-current provisions	**1,293**	1,033
Total provisions	**12,088**	11,608

Recognition and measurement

Provisions

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

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

On 26 August 2019, two formal notifications of charges from Worksafe New Zealand were received. The current best estimate of the potential obligation has been recognised within the financial statements, and the timing of which is currently uncertain. Details of the charges and amounts remain confidential and are not disclosed to avoid any prejudice to the Company.

ACC Partnership Programme

The Group is a partner in the Accident Compensation Commission (ACC) Partnership Programme. Under the Partnership Programme the Group is liable for all its claim costs for a period of two years up to a specified maximum. At the end of the two year period, the Group pays a premium to ACC for the value of residual claims, the liability for 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 2019. 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 2019 produced a value for the ACC reserve of $253,800 (2018: $222,500). Pre valuation date claim inflation has been taken as 50% (2018: 50%) of movements in the CPI and 50% (2018: 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	2019 SHARES	2018 SHARES	2019 $'000	2018 $'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 2019, there were 156,005,192 (2018: 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 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**
Change in accounting policy	**-**	**-**	**-**	***(663)***	***(663)***
Balance at 30 June 2018, as restated	**(3,240)**	**229,147**	**25,725**	**359,446**	**611,078**
Profit for the period	-	-	-	53,922	**53,922**
Dividends	-	-	-	(45,929)	**(45,929)**
Revaluations	-	33,745	-	-	**33,745**
Changes in fair value of cash flow hedges	(9,124)	-	-	-	**(9,124)**
Transfer to profit / (loss)	3,784	-	-	-	**3,784**
Changes in fair value of investments	-	-	411	-	**411**
Deferred tax	1,495	-	-	-	**1,495**
Tax benefit of losses received from owner	-	-	-	4,418	**4,418**
Revaluation reserve reclassified to retained earnings on disposal of assets	-	(8,541)	-	8,541	**-**
Balance at 30 June 2018	**(7,085)**	**254,351**	**26,136**	**380,398**	**653,800**

The Port of Onehunga was sold on 1 October 2018 (the carrying value was presented in non-current assets held for sale in 2018, refer to note H1). The revaluations which accumulated within the property, plant and equipment reserve relating to the Port of Onehunga have been released to retained earnings.

Recognition and measurement

Share capital

Ordinary shares are classified as equity.

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

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

Reserves

Hedging reserve – cash flow hedges

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

Property, plant and equipment revaluation reserve

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

Fair value changes of equity securities

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

E2. Dividends

	CENTS PER SHARE	2019 $'000	2018 $'000
2017 Final dividend	17.87	-	26,092
2018 Interim dividend	16.28	-	23,768
2018 Final dividend	18.70	27,303	-
2019 Interim dividend	12.76	18,626	-
Total dividends paid		**45,929**	**49,860**

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

	2019			2018		
	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000
Current						
Unsecured						
Bank overdraft – refer note D1	**10,000**	2,805	7,195	10,000	7,594	2,406
Total current interest bearing liabilities	**10,000**	**2,805**	**7,195**	10,000	7,594	2,406
Non-Current						
Unsecured						
Other bank loans	**420,000**	325,770	93,999	420,000	207,885	212,000
Fixed rate notes	**170,000**	169,517	-	170,000	169,469	-
Total non-current interest bearing liabilities	**590,000**	**495,287**	**93,999**	590,000	377,354	212,000
Total interest bearing liabilities	**600,000**	**498,092**	**101,194**	**600,000**	**384,948**	**214,406**

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, Limited. 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, Limited 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%). There have been no breaches of this negative pledge during the financial year. The Group's risk management policies are disclosed in note G1.

The interest rate is based on BKBM (bank bill bid settlement) rate plus a margin range of 0.50% to 0.93% per annum (2018: 0.65% to 0.91% per annum). The Group generally borrows funds on a 90 days term (2018: 90 days term).

Fixed rate notes

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

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

Interest is paid semi-annually.

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

Fair value

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

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

SECTION F

Group Structure

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

F1. Investments in other entities

Carrying value of equity accounted investments	INVESTMENT IN JOINT VENTURES $'000	INVESTMENT IN ASSOCIATES $'000	TOTAL $'000
Balance at 1 July 2017	**1,921**	**1,014**	**2,935**
Share of profit / (loss) after income tax	2,418	-	2,418
Dividends received	(2,370)	-	(2,370)
Movement in advances	(228)	60	(168)
Balance at 30 June 2018	**1,741**	**1,074**	**2,815**
Share of profit / (loss) after income tax	2,473	-	**2,473**
Dividends received	(2,368)	-	**(2,368)**
Impairment	(252)	(214)	**(466)**
Movement in advances	-	50	**50**
Balance at 30 June 2019	**1,594**	**910**	**2,504**

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

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

Recognition and measurement

Investments and advances

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

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

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

F2. Related parties

Subsidiaries	PLACE OF BUSINESS	CLASS OF SHARES	EQUITY HOLDING 2019 %	EQUITY HOLDING 2018 %
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 2019 %	EQUITY HOLDING 2018 %
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 2019 $'000	AGGREGATE BALANCE 2018 $'000
Assets and liabilities		
Current assets	**3,964**	4,573
Non-current assets	**30,651**	31,279
Total assets	**34,615**	35,852
Current liabilities	**6,610**	3,183
Non-current liabilities	**14,070**	18,137
Total liabilities	**20,680**	21,320
Net assets	**13,936**	14,532
Results		
Revenue	**14,975**	14,467
Expenses	**(10,835)**	(9,759)
Net profit after tax	**4,140**	4,708
Total comprehensive income	**4,140**	4,708

The associates and joint ventures had contingent liabilities of $nil as at 30 June 2019 (2018: $nil). Capital commitments as at 30 June 2019 are $230,000 (2018: $88,000).

Related party outstanding balances

	2019 $'000	2018 $'000
Current receivables		
Auckland Council Group	26	24
Associates and joint ventures	90	21
Total current receivables	116	45
Non-current receivables		
Associates and joint ventures	2,054	2,470
Total non-current receivables	2,054	2,470
Current payables		
Auckland Council Group	4,477	6,631
Associates and joint ventures	134	37
Total current payables	4,611	6,668

In the current year, non-current receivables was impaired by $466,000 (2018: nil). The impairment relates to the shareholder advances to equity accounted investees, refer to note G1.

Related party transactions

	2019 $'000	2018 $'000
Auckland Council Group		
Services provided by the Group	313	361
Services provided to the Group	2,344	2,107
Net dividend paid to Auckland Council	45,929	49,860
Subvention payment to Watercare Services Ltd for tax losses	5,920	6,671
Tax losses gifted by Auckland Council to the Group	4,418	3,460
Sale of Port of Onehunga	17,820	1,980
Associates and joint ventures		
Services provided by the Group	280	168
Services provided to the Group	571	435
Net dividends received	2,368	2,370
Advances	50	60
Advance repayments	-	228

Key management personnel compensation

	2019 $'000	2018 $'000
Directors' fees	682	646
Salaries and other short term employee benefits	4,547	3,341
Termination costs	-	-
Total key management compensation	5,229	3,987

F2. Related parties (continued)

Recognition and measurement

Related parties

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

Subsidiaries

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

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

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

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

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

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

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

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

Associates and joint ventures

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

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

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

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

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

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

Related party transactions

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

Auckland Council Group

Auckland Council Group entities include: Auckland Council 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 Limited and Auckland Council Group entities include dividends, tax loss offsets, management fees and port charges. In the current year, capital assets, including land and wharves, collectively known as Port of Onehunga were sold to Panuku Development Auckland Limited.

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

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

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

Directors

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

Key management personnel compensation

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

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

F3. Equity securities

	2019 $'000	2018 $'000
Balance at 1 July	**43,149**	35,752
Movements through reserves	**411**	7,397
Balance at 30 June	**43,560**	43,149

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

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

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

Recognition and measurement

Equity securities

In the prior year, the Group had designated equity instruments as available-for-sale. On adoption of NZ IFRS 9 (refer to the financial instruments disclosure within note G1), the equity securities have been reclassified to fair value through other comprehensive income.

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

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

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

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

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

SECTION G

How we manage financial risk

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

G1. Financial risk management

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

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

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

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

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

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

Credit risk

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

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

Risk management

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

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

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

Approximately 67% (2018: 66%) of trade receivables at balance date is reflected by the Group's ten largest customers. At balance date approximately 24% (2018: 21%) of the trade receivables related to one customer. The Group is satisfied with the credit quality of the customer and does not anticipate any non-performance.

Impairment of financial assets

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

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

Trade receivables

In the prior year, the impairment of trade receivables was measured under NZ IAS 39, which required a provision on the basis that there was objective evidence that the Group will not be able to collect all amounts due from its customers. Objective evidence of impairment included 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.

From 1 July 2018, the Group has applied the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

The trade receivables loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of NZ IFRS 9) was determined as follows:

$'000s	CURRENT	30 DAYS PAST DUE	60 DAYS PAST DUE	90 DAYS PAST DUE	120 DAYS PAST DUE	TOTAL
1 July 2018						
Expected loss rate	0.15%	0.80%	1.08%	2.60%	10.05%	
Gross carrying amount	22,083	7,995	1,174	137	174	31,563
Loss allowance	**33**	**64**	**13**	**4**	**17**	**131**
30 June 2019						
Expected loss rate	**0.15%**	**0.79%**	**1.49%**	**3.71%**	**6.25%**	
Gross carrying amount	**20,293**	**7,218**	**1,612**	**377**	**704**	**30,204**
Loss allowance	**31**	**57**	**24**	**14**	**44**	**170**

The closing loss allowance for trade receivables as at 30 June 2019 reconciles to the opening loss allowance as follows:

	$'000
30 June 2018 - calculated under NZ IAS 39	**131**
Opening loss allowance as at 1 July 2018 - calculated under NZ IFRS 9	**131**
Increase in loss allowance recognised in profit or loss during the year	39
30 June 2019	**170**

Advances to equity accounted investees

In the comparative year, NZ IAS 39 required an entity to assess the advances for impairment when there was objective evidence of impairment. In the current year, NZ IFRS 9 requires the Group to recognise expected credit losses, regardless of whether there has been an impairment trigger.

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

The closing loss allowance for advances to equity accounted investees as at 30 June 2019 reconciles to the opening loss allowance as follows:

	$'000
30 June 2018 - calculated under NZ IAS 39	-
*Amount restated through opening retained earnings **	-
Opening loss allowance as at 1 July 2018 - calculated under NZ IFRS 9	-
Increase in loss allowance recognised in profit or loss during the year	466
30 June 2019	**466**

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.

G1. Financial risk management (continued)

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 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
Balance at 30 June 2019							
Trade and other payables	43,317	-	-	-	-	**43,317**	**43,317**
Borrowings	19,913	8,138	234,570	129,750	224,793	**617,164**	**498,092**
Total non-derivative liabilities	**63,230**	**8,138**	**234,570**	**129,750**	**224,793**	**660,481**	**541,409**

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 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
Balance at 30 June 2019							
Interest rate swaps (net settled)	1,807	1,813	3,029	3,049	331	**10,029**	**9,657**
Forward exchange contracts							
Inflows	(4,981)	(7,739)	-	-	-	**(12,720)**	
Outflows	5,075	7,990	-	-	-	**13,065**	
Net forward exchange contracts	**94**	**251**	**-**	**-**	**-**	**345**	**341**
Total derivative liabilities	**1,901**	**2,064**	**3,029**	**3,049**	**331**	**10,374**	**9,998**

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.

Effects of hedge accounting on the financial position and performance

Forward exchange contracts

The effects of the foreign currency related hedging instruments on the Group's financial position and financial performance are outlined in the table below. The maturity date for the outstanding forward exchange contracts range from August 2019 to May 2020 (PY: July 2018 to May 2019).

	2019 $'000	2018 $'000
USD Forward Exchange Contracts		
Carrying amount - asset	**157**	339
Notional amount	**2,366**	5,850
Hedge ratio	**1:1**	1:1
Change in discounted spot value of outstanding hedging instruments during financial year	**25**	339
Change in value of hedged item used to determine hedge effectiveness	**(25)**	(339)
Weighted average hedged rate for the year	**USD 0.7185:NZD 1**	USD 0.7169:NZD 1
EUR Forward Exchange Contracts		
Carrying amount - asset	**-**	3,385
Notional amount	**-**	31,912
Change in discounted spot value of outstanding hedging instruments during financial year	**-**	2,450
Change in value of hedged item used to determine hedge effectiveness	**-**	(2,451)
Weighted average hedged rate for the year	**-**	EUR 0.6350:NZD 1
USD Forward Exchange Contracts		
Carrying amount - liability	**-**	(362)
Notional amount	**-**	15,489
Change in discounted spot value of outstanding hedging instruments during financial year	**-**	1,495
Change in value of hedged item used to determine hedge effectiveness	**-**	(1,495)
Weighted average hedged rate for the year	**-**	USD 0.6607:NZD 1
EUR Forward Exchange Contracts		
Carrying amount - liability	**(341)**	-
Notional amount	**13,065**	-
Change in discounted spot value of outstanding hedging instruments during financial year	**(583)**	-
Change in value of hedged item used to determine hedge effectiveness	**584**	-
Weighted average hedged rate for the year	**EUR 0.5688:NZD 1**	-

Interest rate swaps

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

	2019 $'000	2018 $'000
Interest rate swaps		
Carrying amount - liability	**(9,657)**	(7,863)
Notional amount	**140,000**	180,000
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments during financial year	**(5,514)**	(3,843)
Change in value of hedged item used to determine hedge effectiveness	**5,618**	3,858
Weighted average hedged rate for the year	**4.13%**	4.22%

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

	30 JUNE 2019		30 JUNE 2018	
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Bank overdrafts and bank loans	**2.5%**	**328,805**	2.8%	215,594
Interest-rate swaps – notional value	**4.1%**	**140,000**	4.2%	180,000

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

G1. Financial risk management (continued)

Equity price risk

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

The Group is not exposed to commodity price risk.

Summarised sensitivity analysis

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

	2019 $'000	2018 $'000
Financial assets		
Cash and cash equivalents	**9,369**	1,301
Equity securities	**43,560**	43,149
Total financial assets	**52,929**	44,450
Designated in hedge relationship		
Derivative financial assets		
Forward exchange contracts	**157**	3,724
Derivative financial liabilities		
Interest rate swaps	**9,657**	7,863
Forward exchange contracts	**341**	362
Total designated in hedge relationship	**9,841**	4,501
Financial liabilities		
Interest bearing liabilities	**498,092**	384,948
Total financial liabilities	**498,092**	384,948

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:

	2019		2018	
	PROFIT BEFORE TAX $'000	EQUITY $'000	PROFIT BEFORE TAX $'000	EQUITY $'000
Interest rate risk				
25 basis point increase (2018: 25 basis points)	**(449)**	**1,039**	(111)	1,347
25 basis point decrease (2018: 25 basis points)	**449**	**(1,057)**	111	(1,388)
Foreign exchange risk				
10% increase in value of NZ dollar	**(843)**	**(1,375)**	-	(5,113)
10% decrease in value of NZ dollar	**843**	**1,680**	-	6,250
Equity price risk				
10% increase in equity prices	**-**	**4,356**	-	4,315
10% decrease in equity prices	**-**	**(4,356)**	-	(4,315)

Fair value

Fair value hierarchy

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

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

Level 2

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

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

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

Level 3

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

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

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

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

	LEVEL	2019 $'000	2018 $'000
Equity securities	1	**43,560**	43,149
Derivative financial assets			
Interest rate swaps	2	**-**	-
Foreign exchange contracts	2	**157**	3,724
Total derivative financial assets		**157**	3,724
Derivative financial liabilities			
Interest rate swaps	2	**9,657**	7,863
Foreign exchange contracts	2	**341**	362
Total derivative financial liabilities		**9,998**	8,225
Non-financial assets			
Investment properties	3	**143,304**	184,284
Land	3	**378,910**	342,349
Buildings	3	**54,493**	29,088
Wharves	3	**313,265**	316,143
Total non-financial assets		**889,972**	871,864

Financial instruments

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

NZ IFRS 9 was adopted by the Group on 1 July 2018. On adoption, the Group assessed its classification of financial instruments in accordance with the provisions of the standard. The Group's equity instruments were previously classified as available-for-sale, however on adoption of NZ IFRS 9, they have been reclassified to fair value through other comprehensive income. The equity instruments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

G1. Financial risk management (continued)

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

	CARRIED AT COST OR AMORTISED COST $'000	CARRIED AT FAIR VALUE $'000	AVAILABLE-FOR-SALE $'000
Balance at 30 June 2018			
Financial assets	1,301	-	-
Cash and cash equivalents	32,275	-	-
Trade receivables	2,470	-	-
Joint venture and associate advances	-	-	43,149
Equity securities			
Designated in a hedge relationship			
Derivative financial assets	-	3,724	-
Derivative financial liabilities	-	(8,225)	-
Financial liabilities			
Trade and other payables	(38,212)	-	-
Interest bearing liabilities	(384,948)	-	-

	CARRIED AT COST OR AMORTISED COST $'000	CARRIED AT FAIR VALUE $'000	AVAILABLE-FOR-SALE $'000
Balance at 30 June 2019			
Financial assets			
Cash and cash equivalents	**9,369**	**-**	**-**
Trade receivables	**37,186**	**-**	**-**
Joint venture and associate advances	**2,054**	**-**	**-**
Equity securities	**-**	**-**	**43,560**
Designated in a hedge relationship			
Derivative financial assets	**-**	**157**	**-**
Derivative financial liabilities	**-**	**(9,998)**	**-**
Financial liabilities			
Trade and other payables	**(43,317)**	**-**	**-**
Interest bearing liabilities	**(498,092)**	**-**	**-**

**classified as available-for-sale in 2018*

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

	TRANCHE 1 $'000	TRANCHE 2 $'000	TRANCHE 3 $'000	TOTAL $'000
Balance at 30 June 2018				
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**
Balance at 30 June 2019				
Interest bearing liabilities - fixed rate notes				
Final maturity date	**21 June 2028**	**21 June 2030**	**21 June 2033**	
Coupon	**4.81%**	**5.06%**	**5.32%**	
Carrying value - refer E3	**57,839**	**55,841**	**55,837**	**169,517**
Fair value	**64,498**	**63,510**	**64,924**	**192,932**

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

Capital risk management

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

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

The gearing ratio as at 2019 is 38% (2018: 34%).

G2. Derivative financial instruments

	2019 $'000	2018 $'000
Current assets		
Forward foreign exchange contracts	**157**	3,724
Total current derivative assets	**157**	3,724
Total derivative assets	**157**	3,724
Current liabilities		
Forward foreign exchange contracts	**341**	362
Interest rate swaps	**134**	966
Total current derivative liabilities	**475**	1,328
Non-current liabilities		
Interest rate swaps	**9,523**	6,897
Total non-current derivative liabilities	**9,523**	6,897
Total derivative liabilities	**9,998**	8,225

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

	2019 $'000	2018 $'000
Less than 1 year	**10,000**	40,000
1 - 2 years	**40,000**	10,000
2 - 3 years	**40,000**	40,000
3 - 4 years	**-**	40,000
4 - 5 years	**25,000**	-
Greater than 5 years	**25,000**	50,000
Total	**140,000**	180,000

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 IFRS 13 'Fair Value Measurement'. The fair values are estimated on the basis of the quoted market prices for similar instruments in an active market or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

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

G2. Derivative financial instruments (continued)

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 property, plant and equipment, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the item of property, plant and equipment. The deferred amounts are ultimately recognised in the income statement when the item of property, plant and equipment is depreciated.

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

Fair value

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

Instruments used by the Group

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

All derivatives are designated as hedging instruments.

Interest rate swap contracts – cash flow hedges

Bank loans of the Group currently bear a weighted average variable interest rate of 2.48% (2018: 2.81%). 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 28% (2018: 45%) 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% (2018: 2.85% and 5.79%) and the maturity dates range between 23 December 2019 and 21 June 2026.

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

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

Forward exchange contracts – cash flow hedges

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

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

At 30 June 2019, the Group had outstanding forward exchange contracts equivalent to $15,431,222 (2018: $53,250,720) for three quay cranes and intelligent terminals.

Hedging Reserves

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

	INTEREST RATE SWAPS $'000	FORWARD EXCHANGE CONTRACTS $'000	TOTAL HEDGE RESERVE $'000
Balance at 1 July 2017	**5,630**	**2,688**	**8,318**
Changes in fair value of hedging instrument recognised in OCI	3,848	(7,096)	**(3,248)**
Interest expense reclassified from OCI to profit or loss	(3,804)	-	**(3,804)**
Deferred tax	(13)	1,987	**1,974**
Balance at 30 June 2018	**5,661**	**(2,421)**	3,240
Changes in fair value of hedging instrument recognised in OCI	**5,578**	**3,546**	9,124
Interest expense reclassified from OCI to profit or loss	**(3,784)**	**-**	(3,784)
Deferred tax	**(502)**	**(993)**	(1,495)
Balance at 30 June 2019	**6,953**	**132**	7,085

Hedge ineffectiveness

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

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

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

SECTION H

Other disclosures

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

H1. Non-current assets held for sale

	2019 $'000	2018 $'000
Land	-	7,770
Buildings, Wharves and Improvements	-	10,636
Investment Properties - Land	56,000	-
Balance at 30 June	**56,000**	18,406

During the current year, Ports of Auckland Limited entered into a sale and purchase agreement for the sale of the Pikes Point property, which was settled on 11 July 2019. This property was presented within investment property, until it was deemed as held for sale.

In the prior year the Port of Onehunga was classified as held for sale and subsequently sold in October 2018. The carrying value of $18,406,000 included a reversal of a previous year impairment of $2,184,000, which was recognised in the prior year income statement, as a reversal of impairment of assets.

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

	2019 $'000	2018 $'000
Property, plant and equipment	39,217	56,150
Intangible assets	190	126
Investment properties	1,221	14,328
Total capital commitments	**40,628**	70,604

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

H3. Lease commitments

	2019 $'000	2018 $'000
Operating lease commitments: Group as lessee (i)		
Within one year	**1,575**	1,429
Greater than one year but not more than five years	**2,016**	1,865
Total operating lease commitments	**3,591**	3,294
Operating lease commitments: Group as lessor (ii)		
Within one year	**6,745**	7,947
Greater than one year but not more than five years	**23,443**	32,590
More than five years	**34,489**	32,124
Total operating lease commitments	**64,677**	72,661

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

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

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 2019 (2018: $nil).

Ports of Auckland Limited has a performance bond of $810,000 (2018: $810,000) with Auckland Council to ensure that the final finishing of the reclamation of the Fergusson Container terminal is undertaken and that an accessible esplanade reserve is provided. Ports of Auckland Limited pays Westpac a premium to take on the bond risk. No event has occurred that would cause this guarantee to be called upon.

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

H5. Events occurring after the reporting period

Sale of Pikes Point, classified as non-current assets held for sale, was settled on 11 July 2019.

Get in touch

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To see our Annual Report online including videos:
www.poal.co.nz/media/reviews

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