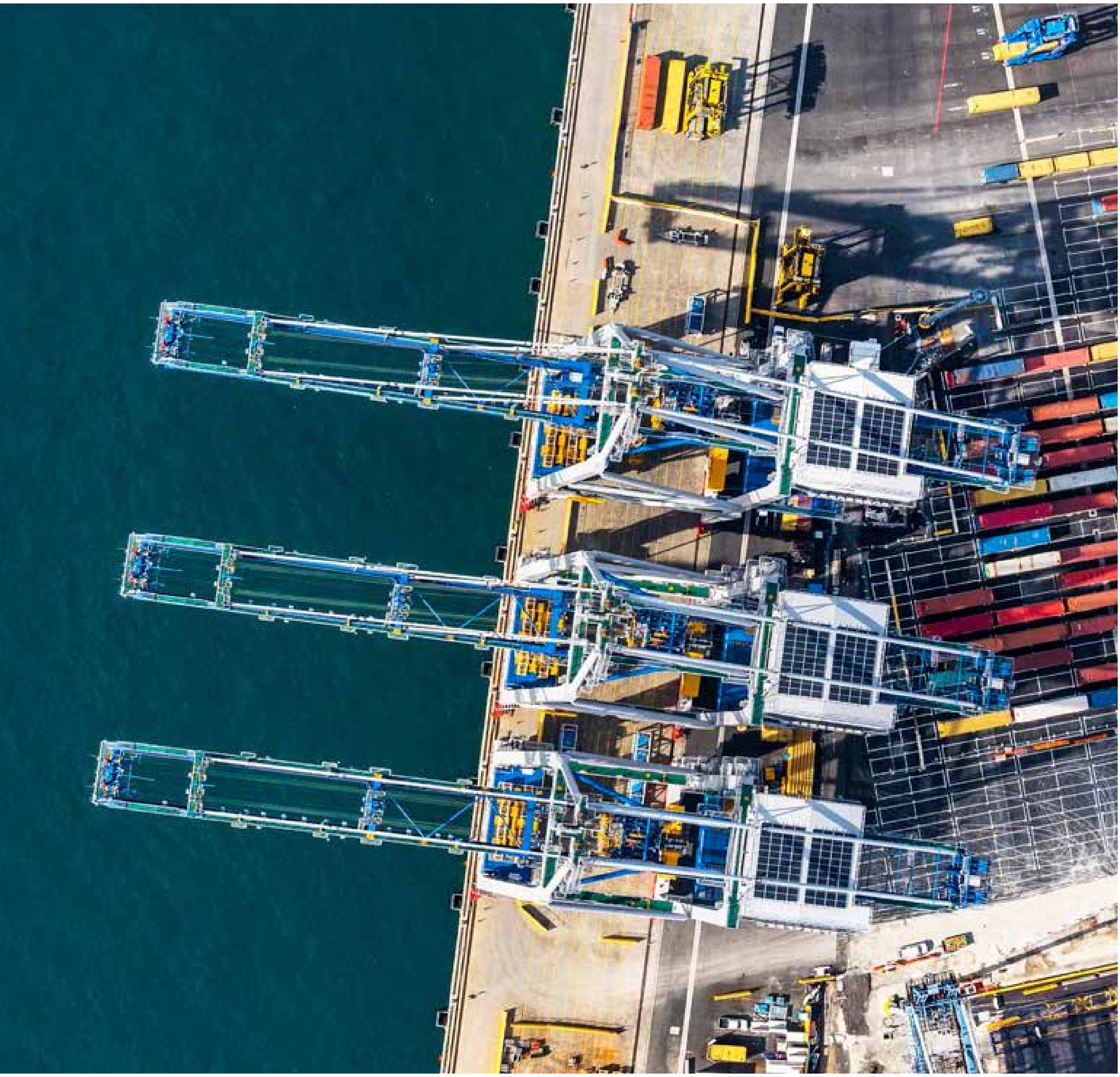
Interim Report

PORTS OF AUCKLAND
TĀMAKI HERENGA WAKA

Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2019



Highlights

1

GIRAFFE HANDLED

10%
reduction
in electricity
consumption

475,173

CONTAINER VOLUMES (TEU)

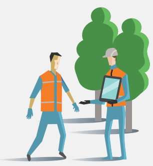
$123.2m revenue

$17.2m
net profit after tax

3.297m

TONNES OF BULK AND BREAKBULK CARGO

Emissions reduction roadmap approved



90%

OF LIGHTING CONVERTED TO LOW ENERGY LEDS

Channel deepening consent lodged

124,295

CARS HANDLED

zero

WHALES KILLED BY SHIP STRIKE (THANKS TO THE BRYDE'S WHALE TRANSIT PROTOCOL)

637

SHIP CALLS

15 EVs in our light vehicle fleet

Chair & Chief Executive's review

Welcome to Ports of Auckland's half year report to December 31, 2019.

Our company is in the midst of delivering our 30-year master plan, a major investment programme which will increase capacity, efficiency and returns, as well as lay the foundation for us to meet our zero-emission goal. Delivering such a large investment programme whilst keeping the port working well has not been without challenges, however the last six months have seen significant progress and the next six months will see the completion of two major master plan elements: container terminal automation and the new car handling building. We have also made significant progress on a third element, channel deepening.

Container terminal

Infrastructure work for the terminal automation project was largely completed by the second quarter of this financial year. There are some minor works to be finished, but the disruption and loss of capacity experienced during the height of the works is now behind us. This is very helpful for terminal operations and as a result the 2019 import peak did not see the level of congestion or delay seen in 2018.

Container volumes were down 2% on the year prior at 475,173 TEU (1 TEU is equivalent to one twenty-foot container) for the six months (485,087 TEU in the same period last year). The drop was the result of the loss of two service calls, a service change and a high number of vessels arriving out of schedule. Late vessel arrivals result in less time to service the vessel at the terminal, which has often resulted in a ship having to leave without completing its planned number of container moves.

Another contributing factor is the very tight New Zealand labour market. This has made it hard for us to find staff and has resulted in an ongoing under-resourcing at the terminal. Without labour, there have been times when customers have wanted to load additional containers and we have been unable to meet that demand. This situation is expected to ease for the 2020 import season once automation is fully delivered.

The go-live date for phase 1 of automation has been put back a month to the end of March 2020. Forecast container volumes for January 2020 were higher than previously expected so we decided to delay go-live in order to handle the increase. To prepare for automation, staff need training in new processes and while they are training, they are not available to work in the terminal. If we had pushed ahead with the planned late-February go-live we would have had to take staff out of operations in January, losing the extra volume and disappointing our customers.

That delay aside, automation testing and preparation is going well. We have completed live equipment testing and are now testing the new terminal operating software alongside the live terminal environment. Staff training is ongoing and truck drivers are also being trained in the new processes. We will go-live in the northern part of the terminal first, while continuing with a manual operation in the southern part of the terminal. Automated operations will start small and gradually build up until we have complete confidence in the operation. At which point, around May or June, we will switch the whole terminal over to automated operations.

By phasing automation in this way, we reduce the risk of a major interruption to our service if there are any teething problems. Once automation is fully live around the middle of the year, we will gain a significant amount of terminal capacity, from around 900,000 TEU a year to around 1.7 million TEU. That is enough capacity to handle the freight needs of a million more people in Auckland and should last us until the middle of the century. If necessary, beyond this date further changes to the port layout and greater levels of automation could deliver enough capacity for an Auckland population of around 5 million people.

Multi-cargo

In the multi-cargo side of our business, work on the new car handling building has progressed very well. All five levels have been completed and work on the access ramps is underway. The building is expected to be finished on time and on budget around the middle of 2020.

On completion, it will deliver new capacity in time for the Auckland fishing fleet to be relocated to Marsden wharf for the America's Cup – Marsden is currently used for car imports. Longer term, the additional capacity will enable us to handle an expected upturn in vehicle imports as New Zealand switches to an electric vehicle fleet.

We have also started engagement for the new public space which will be created on top of the building. We have run workshops at three local primary schools (Parnell, St Mary's Bay and Devonport) to get ideas from the next generation about what they would like to see there. Their ideas have ranged from the fantastical – a llama petting area, to the practical – a playground and plenty of shade, to the thoughtful – a bar and a place for tired parents to rest and catch up on emails.

We look forward to further public engagement on this project throughout 2020 before building the recreational park for Aucklanders to enjoy. We aim to have the park open no later than 2023.

As expected, multi-cargo volumes were flat compared to the year prior. Breakbulk volume of 3.297m tonnes compared to 3.326m tonnes last year, a slight drop of 1%. Car volumes were almost the same with 124,295 units in the period compared to 124,190 units in the year prior.

For the full year we are expecting cargo volumes in all areas of the business to remain flat.

Channel deepening

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

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

The largest container ships we handle at the moment carry up to 5,000 TEU. Shipping lines want to bring 6-7,000 TEU ships here in the next 2-3 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 12.5m deep at low tide, whereas 6-7,000 TEU ships have a draft of 14m and New Panamax ships have a draft of 15.2m.

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

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

We have applied for consent with Auckland Council and asked for the application to be publicly notified. Notification is not required under the Auckland Unitary Plan for dredging inside the channel precinct, but we feel it is important for all our major projects to be carried out in an open and transparent manner. We also undertook a great deal of public engagement prior to lodging consent. Council has now received public submissions and we expect a consent hearing to be held later this year.

Waikato Freight Hub

The main road access to the Waikato Freight Hub was completed and a small opening ceremony was held in August. The access includes a bridge over the main trunk rail line and a new road – Kohia Drive. Both the bridge and road will be vested with Waikato District Council. We have lodged a subdivision consent to enable that to happen. Work is currently underway to extend Kohia Drive further around the site.

Following a decision to begin the development of the Inland Port portion of the Waikato Freight Hub, almost 10 hectares of land that will form an inland port and rail facility was transferred from investment property to port property. Construction of the first two hectares of heavy-duty pavement for the inland port is underway.

Financial performance

As noted in previous reports, we expected lower returns from the business as a result of flat volumes and higher costs associated with the investment programme. Revenue for the last six months has been flat, at $123.2 million for the period compared to $123.6 million for the previous corresponding period (pcp). Costs were up as expected, due to the investment programme, higher interest costs, and higher labour costs. As a result, net profit after tax was $17.2 million, compared to $24.4 million in the pcp, down 29%.

The situation is expected to continue for the full year, with lower profit expected. The company will not pay an interim dividend and expects to pay a lower full-year dividend than forecast. We are expecting a temporary impact from the coronavirus outbreak although it is not yet possible to accurately quantify the

We are also offering training in both new or changed roles at the port and will do so for skills for roles in other industries if the need arises.

scale. There is normally a slow-down in trade after Christmas and the Chinese New Year, but this is being exacerbated by measures taken globally to slow the spread of the virus. There is a human impact and our thoughts are with those affected. We will continue to closely monitor the situation.

Looking forward to the 2020/21 financial year, while there is still uncertainty in the global trade environment, the completion of the automation project will mean more capacity at the terminal and the ability to handle greater volumes. With new capacity in hand and a third berth in operation, we will look to win back both volumes and services over the coming year.

Our people

One of the biggest issues for our people is the impact of automation on jobs. We have acknowledged this from the start, initially expecting around 50-60 roles to be affected. Although we will not know the exact impact until after automation is fully implemented, as we get closer to go-live, we can see several factors at play which may lead to a lesser impact.

As mentioned above, we are currently operating in a very tight labour market and our stevedoring operations are constantly under-resourced. Automation will help that situation. A second factor is that some jobs may change but not disappear, and some new roles are being created. Finally, we are opening our third container berth and we expect volume to increase. We will have eight cranes to operate instead of five so the number of staff required will increase too.

On the one hand this is a potentially positive situation. If we can win back services and increase volume, we may have a situation where no roles are lost. On the other hand, we won't know if that is the case until the second half of 2020. This uncertainty is hard for staff. To help, we have given a commitment that no changes will take place until after automation has been fully implemented. We are continually talking to staff to ensure they are well informed and kept up to date with progress. We are also offering training in both new or changed roles at the port and will do so for skills for roles in other industries if the need arises.

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

Lash platforms are situated on the crane above straddle height, so staff are no longer working around heavy machinery, thus eliminating this risk. The platforms also have small cabins at each end, providing shelter in bad weather and thus improving working conditions. The use of lash platforms does mean a different process for crane drivers when loading containers – instead of going straight from wharf to ship the container has to go from wharf to lash platform to ship. As we expected, this initially slowed down our crane rate while drivers were getting used to the new procedure. We are now finding that the cycle time is improving as our staff gain more experience in this new process. Longer term we expect a slight decrease in productivity from this new initiative but it is a small price to pay for a safer workplace.

Community

Part of our long-term vision is to be woven into the fabric of Auckland and our annual SeePort festival is a key part of our work in this direction. SeePort 2020 was held over Auckland Anniversary Weekend as usual and again attracted large crowds – between 65,000 to 70,000 people over three days. When it started in 2013 it was very much focussed on port activities, but over the years it has grown into a showcase of Auckland's maritime and logistics sector. We are grateful to our supporting partner the Royal New Zealand Navy, and other partners including KiwiRail (who brought in a full-size

locomotive on site), Sanford (showcasing sustainable seafood), Police, Fire Service, Customs, MPI and more.

For the first time this year we were able to offer public bus tours of our container terminal so visitors could get a close-up view of giant container ships being loaded. Feedback from SeePort has been overwhelmingly positive, with many Aucklanders really appreciating the opportunity to see their port at work. We would like to thank our partners for making this event a huge success, and our staff, many of whom volunteer over the weekend to share their experience of the port with the public.

Zero-emission by 2040

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

In July 2018 we joined the Climate Leaders Coalition (CLC), and in doing so pledged to publicly set an emissions reduction target consistent with keeping global warming within 2ºC of pre-industrial levels. We then chose to commit to the Science Based Targets initiative (SBTi) because of the scheme's ability to help with verifying that our emission reduction roadmap is consistent with an approach grounded in science. SBTi is the only globally recognised scheme which does so.

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

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

We have started a multi-year programme to develop a climate response framework. We completed a Climate Change Impacts and Implications study last year, which recommended a phased approach to developing our climate strategy. We started an organisational climate response readiness assessment in February 2020.

We have upgraded 90% of our lighting (including exterior flood lights, workshops/sheds, and our main office) to LED. This project has contributed to around 10% reduction in electricity usage for the period although it should be noted that other factors, like fewer refrigerated containers will also have had an impact. Construction of our new electric tug – the world's first – has started in Vietnam and delivery is expected in late 2021.

We are making progress – albeit slower than hoped – on our plan to build and operate a hydrogen production and refuelling plant on port. We have awarded the pre-construction services contract to EPC contractor Worley and they have their engineering and detailed design well underway, with major equipment purchases expected soon. We are working closely with the government on the regulatory approvals that are required for the project and we are currently awaiting the outcome of our resource consent application.

We are also looking to reduce emissions in the wider supply chain. One of our great advantages as a port is that we are located in the market we serve. Other ports, like Tauranga and Northport, lie a great distance away. Goods imported to Auckland via these ports inherently have a higher carbon footprint. While the difference in the carbon footprint of the sea leg of the journey is virtually the same for all three upper North Island ports, the carbon footprint of the land-side leg is dramatically different.

We have developed a carbon calculator to help our customers and cargo owners work out the carbon footprint of the land transport leg of their imports and exports. Using this we can clearly see the advantage of importing via a local port. For example, a 15 tonne 20-foot container imported via Ports of Auckland and delivered into a distribution centre in Wiri will only emit 18 kilograms of carbon, but that same container imported via Tauranga will emit 130 kilograms – seven times as much! The carbon cost via Northport is 184 kilograms.

At a time when climate change seems to be accelerating, every gram of carbon counts. Currently around 300,000 TEU of Auckland freight is handled via Tauranga, generating significantly higher emissions. Auckland could save over 30,000 tonnes of CO_2 a year by importing locally via Ports of Auckland. We believe this is a significant issue. Our location gives us a strategic advantage and the ability to make a major contribution to Auckland's effort to reduce its emissions. Once the automation project goes live we will have the capacity to handle this extra freight for Auckland for the foreseeable future.

Conclusion

We continue to make a significant economic, environmental and social contribution to Auckland and New Zealand. We have been making important investments over the past few years to enable us to continue to play that role for the foreseeable future and we will see the results of that work delivered from 2020 onwards.

We would like to thank all our staff and management and directors for the work they have been doing to prepare our port for a new era and to keep it operating at a high standard.

EM Coutts

Liz Coutts Chair

Tony Gibson Chief Executive

Condensed Consolidated Interim Financial Statements

Income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	NOTES	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Revenue	A1	**123,232**	123,647
Expenses			
Operating expenses	A2	**(81,192)**	(76,039)
Depreciation and amortisation		**(13,290)**	(11,183)
Finance costs	A2	**(9,141)**	(8,919)
Total expenses		**(103,623)**	(96,141)
Trading profit before income tax		**19,609**	27,506
Impairment of investments		**(88)**	(160)
Share of profit from equity accounted investments		**1,203**	966
Profit before income tax		**20,724**	28,312
Income tax expense	A3	**(3,545)**	(3,911)
Profit for the period		**17,179**	24,401

Statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Profit for the period	**17,179**	24,401
Other comprehensive income		
Cash flow hedges, net of tax	**929**	**(1,871)**
Net change in fair value of equity securities	**14,054**	(411)
Other comprehensive income net of income tax	**14,983**	(2,282)
Total comprehensive income	**32,162**	22,119

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

Signed on behalf of the Board by:

E.M. Coutts
Director

S Haydon
Director

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

Statement of financial position

AS AT 31 DECEMBER 2019

	NOTES	31 DECEMBER 2019 UNAUDITED $'000	30 JUNE 2019 AUDITED $'000
Current assets			
Cash and cash equivalents		1,495	9,369
Trade and other receivables		50,638	39,480
Inventories		5,266	4,301
Derivative financial instruments		156	157
Non-current assets held for sale	D2	-	56,000
Total current assets		**57,555**	109,307
Non-current assets			
Property, plant and equipment	B1	1,120,912	1,061,610
Intangible assets	B2	79,413	71,070
Investment properties	B3	125,318	143,304
Right of use assets	B4	16,347	-
Equity securities		57,614	43,560
Investments and advances		2,377	2,504
Total non-current assets		**1,401,981**	1,322,048
Total assets		**1,459,536**	1,431,355
Current liabilities			
Interest bearing liabilities	C1	9,108	2,805
Trade and other payables		41,006	43,317
Provisions		10,546	10,795
Lease liabilities	D1	2,282	-
Derivative financial instruments		1,817	475
Deferred income		23	22
Other current liabilities		158	15
Total current liabilities		**64,940**	57,429
Non-current liabilities			
Interest bearing liabilities	C1	470,069	495,287
Derivative financial instruments		6,889	9,523
Provisions		1,293	1,293
Lease liabilities	D1	14,233	-
Deferred income		547	558
Deferred tax liabilities		68,057	67,460
Total non-current liabilities		**561,088**	574,121
Total liabilities		**626,028**	631,550
Net assets		**833,508**	799,805
Equity			
Share capital		146,005	146,005
Reserves		280,393	273,402
Retained earnings		407,110	380,398
Total equity		**833,508**	799,805

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Statement of changes in equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 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**	**251,632**	**360,109**	**757,746**
Transition adjustment 1 July 2018 (NZ IFRS 15)		**-**	**-**	**(663)**	**(663)**
Adjusted balance at 1 July 2018		**146,005**	**251,632**	**359,446**	**757,083**
Profit for the period		-	-	24,401	24,401
Other comprehensive income		-	(2,282)	-	(2,282)
Total comprehensive income		-	(2,282)	24,401	22,119
Transactions with owners in their capacity as owners					
Dividends paid	C2	-	-	(27,303)	(27,303)
Tax benefit of losses received from owner		-	-	1,540	1,540
Other movements					
Revaluation reserve reclassified to retained earnings on disposal of assets		-	(8,541)	8,541	**-**
Total other movements		-	(8,541)	(17,222)	(25,763)
Balance at 31 December 2018 (Unaudited)		**146,005**	**240,809**	**366,625**	**753,439**
Balance at 1 July 2019		**146,005**	**273,402**	**380,398**	**799,805**
Profit for the period		-	-	17,179	**17,179**
Other comprehensive income		-	14,983	-	**14,983**
Total comprehensive income		**-**	**14,983**	**17,179**	**32,162**
Transactions with owners in their capacity as owners					
Tax benefit of losses received from owner		-	-	1,541	**1,541**
Other movements					
Revaluation reserve reclassified to retained earnings on disposal of assets		-	(7,992)	7,992	**-**
Total other movements		**-**	**(7,992)**	**9,533**	**1,541**
Balance at 31 December 2019 (Unaudited)		**146,005**	**280,393**	**407,110**	**833,508**

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Statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Cash flows from operating activities		
Receipts from customers	**133,936**	135,572
Payments to suppliers and employees	**(103,567)**	(96,235)
Dividends received	**2,236**	2,111
Interest received	**40**	71
Interest paid	**(9,694)**	(9,306)
Net cash flows from operating activities	**22,951**	**32,213**
Cash flows from investing activities		
Payments for investment property	**(2,946)**	(12,512)
Payment for intangible assets	**(10,368)**	(21,691)
Payments for property, plant and equipment	**(49,764)**	(53,460)
Advances to related parties	**(230)**	(85)
Proceeds from sale of property, plant and equipment	**40**	17,820
Proceeds from sale of investment properties	**54,000**	-
Interest paid - capitalised	**(2,139)**	(1,716)
Net cash flows from investing activities	**(11,407)**	**(71,644)**
Cash flows from financing activities		
Proceeds from borrowings	**641,000**	618,500
Repayment of borrowings	**(666,000)**	(544,500)
Lease liabilities principal repaid	**(721)**	-
Dividends paid	**-**	(27,303)
Net cash flows from financing activities	**(25,721)**	**46,697**
Net cash flows	**(14,177)**	**7,266**
Cash at the beginning of the period	**6,564**	(6,293)
Cash at the end of the period	**(7,613)**	**973**

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Statement of cash flows (continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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

	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Profit for the period	**17,179**	**24,401**
Adjusted for:		
Depreciation and amortisation	**13,290**	11,183
Movements in borrowings allocated to interest paid	**(218)**	(26)
Tax benefit of losses received from owner	**1,540**	1,540
Movement in deferred revenue	**131**	(11)
Net (gain) / loss on sale of other non-current assets	**10**	565
Impairment of Investments	**88**	-
Change in operating assets and liabilities:		
Trade and other receivables	**(11,658)**	(5,952)
Trade and other payables	**(888)**	1,170
Income tax payable	**77**	100
Deferred tax liability	**235**	6
Other provisions	**252**	12
Other operating assets	**(963)**	(249)
Movement in associates and joint ventures	**270**	402
Capital items included in working capital movements	**3,606**	(928)
Net cash flows from operating activities	**22,951**	**32,213**

Reconciliation of liabilities arising from financing activities to cash flows

	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Interest bearing liabilities		
Opening interest bearing liabilities (excluding overdraft)	**495,287**	377,354
Less establishment fees (classified as interest paid under operating activities)	**(218)**	(67)
Cash movements		
Repayment of bank debt	**(666,000)**	(965,002)
Proceeds from borrowing	**641,000**	1,083,002
Closing interest bearing liabilities (excluding overdraft)	**470,069**	**495,287**

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

Notes to the condensed consolidated interim financial statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

Reporting entity and nature of operations

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

Ports of Auckland Group is a designated profit-oriented entity, for the six months ended 31 December 2019.

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 the subsidiaries are incorporated in New Zealand.

Statutory base

These financial statements have been prepared in accordance with the requirements of 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 interim financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). The Group is a for-profit entity for the purpose of complying with NZ GAAP. They comply with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34"). In complying with NZ IAS 34, these statements comply with International Accounting Standard 34 *Interim Financial Reporting* and consequently do not include all the information required for full financial statements. These interim financial statements should be read in conjunction with the Ports of Auckland Group financial statements for the year ended 30 June 2019.

The interim financial statements for the six month period ended 31 December 2019 and 31 December 2018 are unaudited. The comparative information for the year ended 30 June 2019 is audited.

The interim financial statements were approved by the Board of Directors on 17 February 2020.

Basis of measurement

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

Accounting policies

With the exception of NZ IFRS 16 Leases, the accounting policies and methods of computation set out in these interim financial statements are consistent with those used in the financial statements for the year ending 30 June 2019.

Refer to note D1 for the impact of NZ IFRS 16.

Basis of consolidation

The interim 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.

Goods and services tax (GST)

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

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

Critical accounting estimates and assumptions

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

In preparing these financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty, were the same as those applied to the Group's consolidated financial statements for the year ended 30 June 2019.

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.

A1. Revenue

	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Revenue		
Revenue from contracts with customers	**117,033**	113,378
Rental income	**4,618**	5,262
Gain on disposal of property, plant and equipment	**3**	1,380
Dividend income	**763**	744
Interest income	**40**	71
Other income	**775**	2,812
Total revenue	**123,232**	123,647

Disaggregation of revenue from contracts with customers	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Container terminal	**64,964**	64,750
Multi-cargo	**22,169**	21,222
Marine services	**18,551**	17,664
Container transportation	**11,349**	9,742
Total revenue from contracts with customers	**117,033**	113,378

In the prior year interim financial statements, 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). The Group have now separated rental revenue and renamed the line item. The quantitative effect of this is outlined in the table below:

$'000s	2018 RECLASSIFIED	2018 REPORTED	*2018 MOVEMENT*
Revenue from contracts with customers*	113,378	115,381	*(2,003)*
Rental income	5,262	3,259	*2,003*
	118,640	**118,640**	

* Previously reported as Port Operations Income

A2. Expenses

	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Employee benefit expenses		
Salaries and wages	**39,104**	35,529
Restructuring costs	**188**	-
Pension costs	**1,366**	1,254
Total employee benefit expenses	**40,658**	36,783
Other operating expenses		
Contracted services	**18,461**	17,147
Repairs and maintenance	**8,370**	7,078
Fuel and power	**3,119**	3,214
Loss on disposal of property, plant and equipment - refer note B1	**13**	1,166
Other expenses	**10,403**	10,509
Auditor's fees		
Audit fees	**168**	142
Other assurance services	**-**	-
Total other operating expenses	**40,534**	39,256
Total operating expenses	**81,192**	76,039
Finance costs		
Interest and finance costs	**11,280**	10,635
Capitalised interest	**(2,139)**	(1,716)
Total finance costs	**9,141**	8,919

A3. Taxation

Income statement	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Current income tax expense	3,310	3,984
Deferred tax expense/(benefit)	235	(73)
Income tax expense	**3,545**	**3,911**
Statement of changes in equity		
Cash flow hedges and property, plant and equipment	362	(728)
Income tax reported in equity	**362**	**(728)**

Reconciliation of effective tax rate	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Profit / (loss) before income tax	20,724	28,312
Tax at 28%	5,803	7,927
Adjustments		
Non-taxable income	(112)	(386)
Non-deductible expenses	247	72
Loss offset utilisation	(2,160)	(2,910)
Dividend imputation credits	(574)	(821)
Sundry items	341	29
Income tax expense	**3,545**	**3,911**

The Group utilises losses from the Auckland Council Group.

A subvention payment and loss offset election agreement with Watercare Services Limited has been agreed for the 2020 tax period.

SECTION B

Capital assets used to operate our business

This section gives further information on the capital assets that the Group use to operate the business.

B1. Property, plant and equipment

	FREEHOLD LAND $'000	WHARVES $'000	FREEHOLD BUILDINGS $'000	PLANT AND EQUIPMENT $'000	PAVEMENT $'000	OTHER $'000	TOTAL $'000
Net book value at 1 July 2018	**342,349**	**316,143**	**29,088**	**152,629**	**75,469**	**21,066**	**936,744**
Movement							
Additions	-	1,795	26,296	57,880	16,250	2,608	104,829
Disposals	-	-	-	(554)	-	(37)	(591)
Revaluations - Reserves	33,745	-	-	-	-	-	33,745
Revaluations - Income Statement	79	-	-	-	-	-	79
Reclassifications / Transfers	2,737	-	-	-	3,985	-	6,722
Depreciation charge	-	(4,673)	(891)	(9,534)	(1,818)	(3,002)	(19,918)
Movement to 30 June 2019	36,561	(2,878)	25,405	47,792	18,417	(431)	124,866
Balances							
Cost	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 (Audited)	**378,910**	**313,265**	**54,493**	**200,421**	**93,886**	**20,635**	**1,061,610**
Movement							
Additions	1,080	194	17,438	23,545	4,351	3,331	**49,939**
Disposals	-	-	-	(2)	-	(67)	**(69)**
Reclassifications / Transfers	19,962	-	(721)	-	721	-	**19,962**
Depreciation charge	-	(2,348)	(714)	(5,103)	(908)	(1,457)	**(10,530)**
Movement to 31 December 2019	21,042	(2,154)	16,003	18,440	4,164	1,807	**59,302**
Balances							
Cost	398,872	317,147	43,256	219,723	79,972	53,135	**1,112,105**
Work in progress at cost	1,080	1,186	29,136	144,258	36,668	8,561	**220,889**
Accumulated depreciation	-	(7,222)	(1,896)	(145,120)	(18,590)	(39,254)	**(212,082)**
Net book value at 31 December 2019 (Unaudited)	**399,952**	**311,111**	**70,496**	**218,861**	**98,050**	**22,442**	**1,120,912**

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

B2. Intangible assets

	COMPUTER SOFTWARE $'000	TOTAL $'000
Net book value at 1 July 2018	**44,293**	**44,293**
Movement		
Additions	30,438	30,438
Amortisation charge	(3,661)	(3,661)
Movement to 30 June 2019	26,777	26,777
Balances		
Cost	42,117	42,117
Work in progress at cost	52,589	52,589
Accumulated amortisation and impairment	(23,636)	(23,636)
Net book value at 30 June 2019 (Audited)	**71,070**	**71,070**
Movement		
Additions	10,213	**10,213**
Amortisation charge	(1,870)	**(1,870)**
Movement to 31 December 2019	8,343	**8,343**
Balances		
Cost	42,670	**42,670**
Work in progress at cost	62,249	**62,249**
Accumulated amortisation and impairment	(25,506)	**(25,506)**
Net book value at 31 December 2019 (Unaudited)	**79,413**	**79,413**

B3. Investment properties

	31 DECEMBER 2019 UNAUDITED $'000	30 JUNE 2019 AUDITED $'000
At fair value		
Balance at 1 July	**143,304**	184,284
Capitalised subsequent expenditure	**1,976**	11,923
Reclassifications / Transfers	**(19,962)**	(6,722)
Transfers from / (to) assets held for sale	**-**	(56,000)
Net gain / (loss) from fair value adjustment	**-**	9,819
Balance at 31 December (30 June)	**125,318**	143,304

Capitalised expenditure for the period includes investment in the Waikato Freight Hub.

B4. Right of use assets

	LEASED LAND $'000	LEASED EQUIPMENT $'000	LEASED BUILDINGS $'000	LEASED OTHER $'000	TOTAL $'000
Net book value at 1 July 2018	**-**	**-**	**-**	**-**	**-**
Balances					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Net book value at 30 June 2019 (Audited)	-	-	-	-	-
Transition to NZ IFRS 16 at 1 July 2019	*11,604*	*2,497*	*1,255*	*15*	***15,371***
Movement					
Additions during period	-	1,866	-	-	**1,866**
Depreciation charge	(326)	(507)	(53)	(4)	**(890)**
Movement to 31 December 2019	11,278	3,856	1,202	11	**16,347**
Balances					
Cost	11,604	4,363	1,255	15	**17,237**
Accumulated depreciation	(326)	(507)	(53)	(4)	**(890)**
Net book value at 31 December 2019 (Unaudited)	11,278	3,856	1,202	11	**16,347**

The Group have applied NZ IFRS 16 Leases from 1 July 2019. This change in accounting policy has given rise to right of use assets.

Refer to note D1 for the details and impact of this standard.

How we fund our business

This section explains how the Group has managed its debt funding and shows dividends paid in the reporting period.

C1. Interest bearing liabilities

	31 DECEMBER 2019 UNAUDITED			30 JUNE 2019 AUDITED		
	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000	AVAILABLE $'000	NET DRAWN $'000	UNDRAWN $'000
Current						
Unsecured						
Bank overdraft	**10,000**	**9,108**	**892**	10,000	2,805	7,195
Total current interest bearing liabilities	**10,000**	**9,108**	**892**	10,000	2,805	7,195
Non-Current						
Unsecured						
Other bank loans	**420,000**	**300,526**	**119,001**	420,000	325,770	93,999
Fixed rate notes	**170,000**	**169,543**	**-**	170,000	169,517	-
Total non-current interest bearing liabilities	**590,000**	**470,069**	**119,001**	590,000	495,287	93,999
Total interest bearing liabilities	**600,000**	**479,177**	**119,893**	**600,000**	**498,092**	**101,194**

Ports of Auckland Ltd has long term funding in the form of bank facilities and unsecured notes.

The unsecured notes comprise three fixed rate tranches with terms of 10, 12 and 15 years, and final maturities in 2028, 2030, and 2033 respectively. Each tranche is shared evenly between two investors, Metlife Investments and Pricoa Capital Group.

C2. Dividends

	CENTS PER SHARE	31 DECEMBER 2019 UNAUDITED $'000	30 JUNE 2018 AUDITED $'000
2018 Final dividend	18.70	**-**	27,303
2019 Interim dividend	12.76	**-**	18,626
Total dividends paid		**-**	**45,929**

SECTION D

Other disclosures

This section provides an update to significant disclosures since the June 2019 annual report.

D1. Changes in accounting policies

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

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

Group as lessee

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

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

The Group had no leases previously classified as finance leases.

Group as lessor

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

Adjustments recognised on adoption

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

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

Significant judgement – lease term

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

Lease liabilities	31 DECEMBER 2019 UNAUDITED $'000	30 JUNE 2019 UNAUDITED $'000
Current lease liabilities	2,282	-
Non-current lease liabilities	14,233	-
Total lease liabilities	16,515	-

Amounts recognised in profit and loss	31 DECEMBER 2019 UNAUDITED $'000	31 DECEMBER 2018 UNAUDITED $'000
Depreciation expense on right of use assets	890	-
Interest expense on lease liabilities	382	-
Expense relating to variable lease payments not included in the measurement of the lease liability	373	-

D2. Non-current assets held for sale

	31 DECEMBER 2019 UNAUDITED $'000	30 JUNE 2019 UNAUDITED $'000
Investment Properties - Land	-	56,000
Balance at 31 December (30 June)	-	56,000

The Pikes Point property sold on 11 July 2019

D3. Capital commitments

	31 DECEMBER 2019 UNAUDITED $'000	30 JUNE 2019 UNAUDITED $'000
Property, plant and equipment	32,879	39,217
Intangible assets	296	190
Investment properties	4,218	1,221
Total capital commitments	37,393	40,628

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

D4. Contingencies

Contingent liabilities

The Company has a performance bond of $810,000 with Auckland Council to ensure that an accessible esplanade reserve is provided upon completion of the Fergusson container terminal. A premium is paid to Westpac to take on the bond risk. No event has occurred that would cause this guarantee to be called upon.

The Company 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.

D5. Financial Instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of derivative financial instruments that are not traded in active markets are estimated on the basis of the quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Equity securities are categorised as level 1 in the fair value hierarchy and derivative financial instruments are categorised as level 2 in the fair value hierarchy.

D6. Events occurring after the reporting period

There are no subsequent events.

Deloitte.

Independent Review Report

TO THE SHAREHOLDERS OF PORTS OF AUCKLAND LIMITED

We have reviewed the condensed consolidated interim financial statements of Ports of Auckland Limited and its subsidiaries ('the Group') which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, income statement, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 8 to 23.

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

Board of Directors' Responsibilities

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

Our Responsibilities

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

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

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2019 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

B E Tomkins

B E Tomkins
Partner
for Deloitte Limited
On behalf of the Auditor-General
17 February 2020
Auckland, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Ports of Auckland Limited for the six months ended 31 December 2019 included on ports of Auckland Limited's website. The entity's governing body is responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements and related review report dated 17 February 2020 to confirm the information included in the unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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www.masterplan.poal.co.nz

To see our Annual Report online including videos:

www.poal.co.nz/media/reviews

PORTS OF AUCKLAND

TĀMAKI HERENGA WAKA

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