

Full Year Preliminary Announcement
NZX Listing Rule 10.3.2

RESULTS FOR ANNOUNCEMENT TO THE MARKET

AUCKLAND COUNCIL GROUP

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Full Year Preliminary Announcement

Reporting period	Year ended 30 June 2018
Previous reporting period	Year ended 30 June 2017

	Amount NZ\$ million		Percentage change
	Year ended 30 June 2018 Unaudited	Year ended 30 June 2017 Audited	
Revenue from ordinary activities	4,543	4,129	10.0%
Profit / (loss) from ordinary activities after tax attributable to security holder	660	640	3%
Net profit / (loss) attributable to security holder	660	640	3%

	Amount per security	Imputed amount per security
Final dividend	n/a	n/a

Record date	n/a
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Dividend payment date	n/a
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Comments	Auckland Council group (the group) is an NZDX issuer. Refer to the commentary and primary statements for details of the financial results. These primary statements have not yet been audited. Primary statements comprise of the statement of comprehensive revenue and expenditure, statement of financial position, statement of changes in equity and statement of cash flows.
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FULL YEAR PRELIMINARY ANNOUNCEMENT**For the year ended 30 June 2018**

Preliminary annual report on results for the year ended 30 June 2018 in accordance with Listing Rule 10.3.2.

This announcement is based on financial results that are in the process of being audited. The primary statements in this full year preliminary announcement comprise the statement of comprehensive revenue and expenditure, statement of financial position, statement of changes in equity and statement of cash flows.

Control of entities gained or lost during the year

There are no entities over which control has been gained or lost during the year ended 30 June 2018.

Associates and joint ventures of the group

Name	Type	Equity Holding %
City Rail Link Limited	Joint venture	50.0
North Tugz Limited	Joint venture	50.0
PortConnect Limited	Joint venture	50.0
Waste Disposal Services	Joint venture	50.0
Haumaru Housing Limited Partnership	Joint venture	49.0
New Zealand Food Innovation Auckland Limited	Joint venture	33.3
New Lynn Central Limited Partnership	Associate	42.0
New Lynn Central Limited	Associate	42.0
Tamaki Redevelopment Company Limited	Associate	41.0
Longburn Intermodal Freight Hub Limited	Associate	33.3
Auckland International Airport Limited (AIAL)	Associate	22.2

Included in the statement of comprehensive revenue and expenditure is the group's share of AIAL's surplus and revaluation gains for the year of \$87 million (30 June 2017: \$72 million) and \$264 million (2017: \$nil) respectively.

Other associates and joint venture entities do not have a significant impact on the group results.

Results for the year

Auckland Council has designated itself and the group as public benefit entities for the purpose of financial reporting. The attached primary statements are prepared in accordance with New Zealand Tier 1 Public Benefit Entity (PBE) Accounting Standards and they comply with Generally Accepted Accounting Practice.

Refer to the commentary on page 6 of this preliminary release.

Revaluations of assets

During the year the following classes of assets were revalued:

- investment property
- water and waste water
- machinery
- stormwater
- restricted assets including parks, reserves and buildings
- operational land and buildings
- rolling stock
- wharves
- works of art.

The net gain on revaluation of assets was \$2,396 million for the year ended 30 June 2018, and is made up as follows:

	\$m
Investment property	24
Infrastructure property plant and equipment	1,037
Operational property, plant and equipment	912
Restricted property, plant and equipment	423
	<u>2,396</u>

Of this total, \$34 million was recognised in surplus/deficit and \$2,362 million in other comprehensive income.

Other information

Net tangible asset per \$1,000 of listed bonds at 30 June 2018 is \$31,734* (2017: \$26,026).

Bonds on issue are secured by a charge over all rates from time to time set or assessed by Auckland Council.

Details for basic and diluted earnings per share – n/a.

Return to shareholders – n/a.

Segment result – n/a.

Events after the reporting period

On 1 July 2018 Watercare Services Limited, a wholly owned subsidiary of the council, transferred its treasury management to the council. As part of the transfer, all derivative financial instruments were novated to the council for nil consideration. The derivatives were in a loss position of \$217 million at that date. This loss was recognised as an injection of capital, and consequently an increase in the council's investment in Watercare.

On 2 July 2018, Auckland Council Investments Limited (ACIL), a wholly owned subsidiary of the council, transferred its shares in Ports of Auckland Limited and Auckland International Airport Limited to Auckland Council in advance of disestablishing ACIL.

Both of the above transactions had no financial impact on the current year group results or its financial position at 30 June 2018.

[* The increase of net tangible asset per \$1,000 of listed bonds is mainly attributable to a decrease in the amount of the listed bonds from \$1,355 million to \$1,205 million.]

Commentary

The Auckland Council group generated an operating surplus before gains and losses of \$660 million, \$319 million higher than the prior year. The increase reflects an uplift in revenue of \$414million, offset by a \$95 million increase in operating expenses.

Total revenue excluding other gains increased by 10% on the prior financial year to \$4,543 million. Of this 10% growth, 4% relates to rates revenue, and the remaining 6% relates to non-rates revenue. The largest component of the increase is the increase in vested asset revenue of \$198 million which was driven by a higher volume of infrastructure assets completed by developers. Other lesser contributors to the increase are:

- rates revenue and water related charges grew by \$66 million and \$23 million respectively mainly driven by population growth, inflation and increased volumes of water usage
- infrastructure growth has resulted in increases in development and financial contributions, and grants and subsidies of \$56 million, which are largely represented by capital grants
- increased public transport patronage resulted in an increase of \$18 million in transport fees.

Despite the high level of development and growth related activity during the year, and the additional pressure this then puts on all group's resources, operating expenditure was contained at an increase of 3% to \$3,884 million. The largest increase in expenditure was in an increase in our provision for weathertightness claims of \$83 million. Controllable costs such as employee benefits, professional services costs, costs of services and occupancy costs remained within 1.2% of the prior year costs, despite living wage adjustments, an increase in staff numbers in council controlled organisations and the engagement of additional external consultants to manage consenting workload arising from staff vacancies particularly in licensing and regulatory compliance.

Net other losses of the group of \$112 million comprise decreases in the fair value of financial instruments, as a result of falling long-term interest rates, partly offset against gains from disposal of two large non-strategic properties.

The group's total assets have increased by \$4,103 million, largely driven by the group's investment in capital projects during the year of \$1,665 million to expand and renew infrastructure and community assets to support growth in the region. This large programme of work was funded from operating cash flow, cash reserves and debt. The group continued to replace maturing debt with new debt during the year, and increased overall debt (net of cash and cash equivalents) by \$253 million to \$8,222 million at 30 June 2018. The increase was driven by the group's capital programme requirements. Our ratio of debt to revenue remained within our prudential limits.

Major achievements for the year include:

- The council refreshed the Auckland Plan to guide Auckland's future through to 2050. The Auckland Plan tackles the critical issues of transport congestion, housing affordability and environmental protection. It was developed incorporating significant input from stakeholders including more than 18,700 submissions, 5,800 in-person feedback points and 100 feedback events.
- The council worked collaboratively with the Crown to develop a 10-year budget with \$26 billion investment in infrastructure for Auckland over the next 10 years.
- The City Rail Link construction project achieved major milestones in the Lower Queen Street area.
- The council entered into an agreement with the Crown and Emirates Team New Zealand for Auckland to host America's Cup 36 in 2021. To this end, the council has signed up to a cost-sharing arrangement with the Ministry of Business, Innovation and Employment to provide \$98 million towards the operating and capital costs for this event.

30 June 2018

- A New Zealand local government precedent was set with our Green Bond issue to fund electric trains.
- The Waterview Shared Walking and Cycling Path was opened which connects a now continuous 30km route around the city.
- Significant progress was made to update the council's online portal which now allows customers to pay rates, register dogs, apply for licenses and consents, and book at holiday parks online.

Statement of comprehensive revenue and expenditure (unaudited)

For the year ended 30 June 2018

	Group	
\$million	Actual 2018	Actual 2017
Revenue		
Rates	1,707	1,641
Fees and user charges	1,261	1,193
Grants and subsidies	497	459
Development and financial contributions	182	164
Other revenue	287	281
Vested assets	572	374
Finance revenue	37	17
Total revenue excluding other gains	4,543	4,129
Expenditure		
Employee benefits	866	853
Depreciation and amortisation	865	874
Grants, contributions and sponsorship	133	127
Other operating expenses	1,548	1,464
Finance costs	472	471
Total expenditure excluding other losses	3,884	3,789
Operating surplus before gains and losses	659	340
Net other gains/(losses)	(112)	281
Share of surplus in associates and joint ventures	147	75
Surplus/(deficit) before income tax	694	696
Income tax (benefit)/expense	34	56
Surplus/(deficit) after income tax	660	640
Other comprehensive revenue/(expenditure)		
Net gain on revaluation of property, plant and equipment	2,362	1,468
Tax on revaluation of property, plant and equipment	(276)	-
Movement in cashflow hedge reserve	5	3
Tax on movement in cash flow hedge reserve	-	-
Share of associates and joint ventures' reserves	264	2
Net unrealised gain/(loss) on revaluation of financial assets classified as available-for-sale	7	11
Total other comprehensive revenue	2,362	1,484
Total comprehensive revenue	3,022	2,124

Statement of financial position (unaudited)

As at 30 June 2018

\$million	Group	
	Actual 2018	Actual 2017
Assets		
Current assets		
Cash and cash equivalents	618	337
Receivables and prepayments	379	345
Derivative financial instruments	7	-
Other financial assets	151	276
Inventories	41	35
Income tax receivable	-	-
Non-current assets held-for-sale	35	332
Total current assets	1,231	1,325
Non-current assets		
Receivables and prepayments	10	9
Derivative financial instruments	282	170
Other financial assets	121	141
Property, plant and equipment	46,731	43,361
Intangible assets	563	511
Investment property	761	735
Investment in associates and joint ventures	1,751	1,096
Other non-current assets	12	11
Total non-current assets	50,231	46,034
Total assets	51,462	47,359
Liabilities		
Current liabilities		
Bank overdraft	8	6
Payables and accruals	688	688
Employee entitlements	100	95
Borrowings	905	1,125
Derivative financial instruments	5	7
Provisions	127	82
Total current liabilities	1,833	2,003
Non-current liabilities		
Payables and accruals	104	49
Employee entitlements	5	5
Borrowings	7,927	7,175
Derivative financial instruments	963	865
Provisions	405	374
Deferred tax liabilities	1,423	1,112
Total non-current liabilities	10,827	9,580
Total liabilities	12,660	11,583
Net assets	38,802	35,776
Equity		
Contributed equity	26,732	26,728
Accumulated funds	1,667	951
Reserves	10,403	8,097
Total equity	38,802	35,776

Statement of changes in equity (unaudited)

For the year ended 30 June 2018

\$million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2016	26,728	290	6,634	33,652
Surplus after income tax	-	640	-	640
Other comprehensive revenue	-	-	1,484	1,484
Total comprehensive revenue	-	640	1,484	2,124
Transfers to/from reserves	-	21	(21)	-
Balance as at 30 June 2017	26,728	951	8,097	35,776
Balance as at 1 July 2017	26,728	951	8,097	35,776
Surplus after income tax	-	660	-	660
Other comprehensive revenue	-	-	2,362	2,362
Total comprehensive revenue	-	660	2,362	3,022
Found assets	4	-	-	4
Transfers to/from reserves	-	56	(56)	-
Balance as at 30 June 2018	26,732	1,667	10,403	38,802

Statement of cash flows (unaudited)

For the year ended 30 June 2018

\$million	Group	
	Actual 2018	Actual 2017
Cash flows from operating activities		
Receipts from customers, rates, grants and other services	3,972	3,660
Interest received	37	14
Dividends received	68	57
Payments to suppliers and employees	(2,523)	(2,418)
Income tax refunded	4	1
Interest paid	(457)	(422)
Net cash inflow from operating activities	1,101	892
Cash flows from investing activities		
Sale of property, plant and equipment, investment property and intangible assets	257	107
Purchase of property, plant and equipment, investment property and intangible assets	(1,665)	(1,620)
Acquisition of other financial assets	(132)	(154)
Proceeds from sale of other financial assets	284	308
Crown reimbursement for share in joint ventures	218	-
Investment in joint ventures	(93)	-
Advances to external parties	(3)	(14)
Proceeds from community loan repayments	-	6
Net cash outflow from investing activities	(1,134)	(1,367)
Cash flows from financing activities		
Proceeds from borrowings	3,947	3,919
Repayment of borrowings	(3,640)	(3,205)
Proceeds from/(payments for) derivative financial instruments	5	(36)
Net cash inflow from financing activities	312	678
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	279	203
Opening cash and cash equivalents and bank overdrafts	331	128
Closing cash and cash equivalents and bank overdrafts	610	331

The following changes in the classification of the cash flow activities were made to align the 2017 cash flows with current year presentation:

- Capitalised employee benefits were moved from operating to investing activities (Group: \$78 million and Council: \$40 million); and
- Proceeds from derivative financial instruments were moved from investing to financing activities (Group: \$36 million and Council \$34 million)