

FULL YEAR PRELIMINARY ANNOUNCEMENT

For the year ended 30 June 2017

Preliminary annual report on results for the year ended 30 June 2017 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 consist of 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

Nexus Logistics Limited

On 1 May 2017, the Group, through its subsidiary Auckland Council Investments Limited and in turn its subsidiary Ports of Auckland Ltd, has acquired the remaining 50% of shares in Nexus Logistics Limited (Nexus) leading to Nexus becoming a wholly-owned subsidiary of the Group. Nexus is a logistics and distribution solutions provider targeting the New Zealand import/export sector. The acquisition included Conlinxx Limited, a wholly-owned subsidiary of Nexus and a provider of freight handling services and management of the Group's inland freight hub at Wiri, Auckland. The transactions of Nexus recorded as at 30 June 2017 are not material to the Group.

Associates and joint ventures of the Group

Name	Type	Equity Holding %
North Tugz Limited	Joint venture	50.0
Waste Disposal Services	Joint venture	50.0
PortConnect Limited	Joint venture	50.0
New Zealand Food Innovation Auckland Limited	Joint venture	33.3
City Rail Link Limited (CRL)	Jointly controlled entity	50.0
New Lynn Central Limited Partnership	Associate	42.0
Tamaki Redevelopment Company Limited	Associate	41.0
Longburn Intermodal Freight Hub Limited	Associate	33.3
Auckland International Airport Limited (AIAL)	Associate	22.4

The Group's share of results from AIAL included within the statement of comprehensive revenue and expenditure is \$72 million (30 June 2016: \$62 million). No revaluation gain on property, plant and equipment was reported by AIAL for the year ended 30 June 2017 (Group's share on revaluation gain was \$171 million for the year ended 30 June 2016).

CRL

The Crown and Auckland Council have incorporated CRL to assume the responsibility for the design and construction of City Rail Link. On 30 June 2017, the Sponsors Agreement, together with CRL's Constitution, was signed by the Crown and Auckland Council, who have joint control over CRL's relevant activities. No transactions that impact the Group as at 30 June 2017 were recorded by CRL.

Haumaru Housing Limited Partnership

On 19 December 2016, Haumaru Housing Limited Partnership (LP), previously Housing for Older People Limited Partnership, was registered with Auckland Council and The Selwyn Foundation (Selwyn) as limited partners and Haumaru Auckland Limited, previously HFOP Management Limited, as general partner. The primary business of the LP is to provide social rental housing, primarily for older people in Auckland. The LP commenced operations on 1 July 2017.

Auckland Council and Selwyn have 49% and 51% partnership interest/shares respectively. Auckland Council retains legal ownership of the housing stock and will receive significant benefits from the arrangement, being an improvement in the management of, and the quality of, the housing for older people portfolio. The partnership will facilitate improved social objectives through Selwyn's expertise. The transactions of the LP recorded as at 30 June 2017 are not material to the Group.

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 in page 3 of this preliminary release.

Revaluations of property, plant and equipment

During the year, the Group recognised a revaluation gain of \$1,468 million on revaluation of property, plant and equipment, under "Other comprehensive revenue", of which, roading under the infrastructure classification of the Group increased by \$1,385 million. Roading was last revalued effective 30 June 2014. These assets are being revalued using the depreciated replacement cost method wherein the key assumptions used to determine the fair value are the unit rate for construction of roading assets and the remaining useful life. The unit rate is based on the most current contracted rates for the construction standards applicable to the Group and the remaining useful life considering the age of the roads and local conditions such as ground type, weather patterns and road usage.

The other asset classes that were revalued this year are train stations, bus stations and shelters, marina structures and works of art. These asset classes are revalued under the normal cycle using the depreciated replacement cost method except for works of art which is based on available market information.

Other information

Net tangible asset per \$1,000 of listed bonds at 30 June 2017 is \$26,026* (2016: \$28,233).

The bonds 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

The Crown announced \$300 million of new funding through the Housing Infrastructure Fund (HIF) that will unlock new housing development in Auckland's north-west through investment in transport, wastewater and stormwater projects earmarked as priority, fast-track initiatives.

The Crown subsequently announced \$600 million network infrastructure for housing developments through Crown Infrastructure Partners, previously Crown Fibre Holdings, with a purpose of setting up special purpose companies to build and own new trunk infrastructure for housing developments. Two of the earliest projects to be assessed by Crown Infrastructure Partners for investment will be the Auckland North and Auckland South projects previously submitted by Auckland Council through HIF bid submission process.

The impact of the Crown's announcement on housing infrastructure to the Group's results and financial position is dependent on finalising the terms of agreements.

There were no other material events after the reporting date which would require adjustment or disclosure by the Group.

* The reduction of net tangible asset per \$1,000 of listed bonds is due to an increase in the amount of the listed bonds from \$1,175 million to \$1,355 million.

COMMENTARY

The Group generated an operating surplus before gains and losses of \$340 million, \$90 million higher than 30 June 2016.

Total revenue excluding other gains increased by 11% or \$424 million on the prior financial year to \$4,129 million which is driven in part by the increase in vested asset revenue of \$127 million due to a higher volume of infrastructure completed by developers. As a result of the continuous growth of infrastructure in Auckland, the development and financial contributions and grants and subsidies, which are largely driven by capital grants, have increased by 25% and 14%, respectively, since 30 June 2016. In addition, the fees and user charges were up 10% (\$110 million) from last year primarily due to higher transport revenue from patronage growth and increases in water charges and consenting revenue.

Total expenditure excluding other losses has increased by 10% or \$334 million to \$3,789 million. The main drivers being the higher employee benefits due to an increase in salary rates and full time employee equivalents resulting from growth in services, recognition of gross costs incurred on transport operation contracts as a result of the new Public Transport Operating Model, an increase in weathertightness costs driven by updated assumptions on multi-unit dwelling claims and full recognition of Eden Park Trust Board financial guarantee to support their borrowings from ASB Bank Limited. Depreciation and amortisation have also increased by 6% due to the capitalisation of capital projects during this year. Finance costs are higher due to the increase in debt levels and the impact of a change in discount rates applied in calculating the Group's provisions.

Net other gains of the Group of \$281 million comprise the movement in the fair value of financial assets and financial liabilities, which are non-cash items, as a result of rising long-term interest rates.

The Group's net assets have increased by \$2,124 million, largely driven by the Group's investment in capital projects during the year amounting to \$1,660 million to expand and renew community and infrastructure assets to prepare for growth in the region. This large programme of work was funded from operating cash flow, cash reserves and debt. At 30 June 2017, the Group debt, net of cash and cash equivalents, increased by \$486 million to \$7,969 million (2016: \$7,483 million).

During this financial year, a number of asset classes were revalued. The revaluation gain largely comprised increases in roading of \$1,385 million and other operational assets of \$83 million. Total revaluation gain of \$1,468 million was recognised in other comprehensive revenue.

Major achievements for the year include:

- Adoption of the Auckland Transport Alignment Project, involving Auckland Council, Auckland Transport and multiple central government agencies which set out a 30-year transport programme for the Auckland region.
- The Crown and Auckland Council have formally agreed in principle to equally co-fund the development and delivery of City Rail Link over the life of the project which will enhance the capacity and performance of Auckland rail services and improve transport outcomes in Auckland.
- Planning by Watercare Services Limited is underway for the Northern Interceptor project, which involves construction of a new wastewater pipeline to divert flows from Māngere Wastewater Treatment Plant to Rosedale Wastewater Treatment Plant.
- Auckland Transport's south New Network was launched, with over 300 new bus stops, 39 new bus routes and 180 Auckland Transport Metro-branded buses delivering a 15 per cent increase in service kilometres.
- Invested \$209 million in road-related assets renewals including streetlights, footpaths and bridges.
- Delivered \$37.9 million of cycling infrastructure, including Quay Street Cycleway, the first section of the Glen Innes to Tāmaki Drive shared path, and Mt Roskill Safe Route.
- Two sections of the 32km Hunua 4 watermain were brought into service, and planning is underway for the final section from Newmarket to the Khyber Pass reservoirs.
- The Waikato Water Treatment Plant expansion is increasing the capacity of the existing treatment plant to cater for additional demand arising from growth.
- The World Masters Games 2017 was the single biggest event to be hosted in Auckland in a decade. It delivered more than 241,000 visitor nights and a GDP injection of \$34.3 million, which were well above the targets set.

Statement of comprehensive revenue and expenditure (unaudited)

For the year ended 30 June 2017

\$million	Group	
	Actual 2017	Actual 2016
Revenue		
Rates	1,641	1,564
Fees and user charges	1,193	1,083
Grants and subsidies	459	404
Development and financial contributions	164	131
Other revenue	281	260
Vested assets	374	247
Finance revenue	17	16
Total revenue excluding other gains	4,129	3,705
Expenditure		
Employee benefits	853	803
Depreciation and amortisation	874	828
Grants, contributions and sponsorship	127	126
Other operating expenses	1,464	1,281
Finance costs	471	417
Total expenditure excluding other losses	3,789	3,455
Operating surplus/(deficit) before gains and losses	340	250
Net other gains/(losses)	281	(552)
Share of surplus in associates and joint ventures	75	63
Surplus/(deficit) before income tax	696	(239)
Income tax (benefit)/expense	56	(8)
Surplus/(deficit) after income tax	640	(231)
Other comprehensive revenue/ (expenditure)		
Net gain on revaluation of property, plant and equipment	1,468	1,626
Tax on revaluation of property, plant and equipment	-	(4)
Movement in cashflow hedge reserve	3	(9)
Tax on movement in cash flow hedge reserve	-	2
Share of associates and joint ventures' reserves	2	171
Net unrealised gain/(loss) on revaluation of financial assets classified as available-for-sale	11	2
Total other comprehensive revenue	1,484	1,788
Total comprehensive revenue	2,124	1,557

Statement of financial position (unaudited)

As at 30 June 2017

\$million	Group	
	Actual 2017	Actual 2016
Assets		
Current assets		
Cash and cash equivalents	337	137
Receivables and prepayments	345	275
Other financial assets	276	389
Inventories	35	28
Income tax receivable	-	1
Non-current assets held-for-sale	332	43
Total current assets	1,325	873
Non-current assets		
Receivables and prepayments	9	24
Derivative financial instruments	170	263
Other financial assets	141	128
Property, plant and equipment	43,361	41,156
Intangible assets	511	478
Investment property	735	681
Investment in associates and joint ventures	1,096	1,074
Other non-current assets	11	2
Total non-current assets	46,034	43,806
Total assets	47,359	44,679
Liabilities		
Current liabilities		
Bank overdraft	6	9
Payables and accruals	688	607
Employee entitlements	95	90
Borrowings	1,125	1,447
Derivative financial instruments	7	7
Provisions	82	101
Total current liabilities	2,003	2,261
Non-current liabilities		
Payables and accruals	49	45
Employee entitlements	5	5
Borrowings	7,175	6,164
Derivative financial instruments	865	1,207
Provisions	374	290
Deferred tax liabilities	1,112	1,055
Total non-current liabilities	9,580	8,766
Total liabilities	11,583	11,027
Net assets	35,776	33,652
Equity		
Contributed equity	26,728	26,728
Accumulated funds	951	290
Reserves	8,097	6,634
Total equity	35,776	33,652

Statement of changes in equity (unaudited)

For the year ended 30 June 2017

Group				
\$million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2015	26,728	517	4,834	32,079
Deficit after income tax	-	(231)	-	(231)
Other comprehensive revenue	-	-	1,788	1,788
Total comprehensive (expenditure)/revenue	-	(231)	1,788	1,557
Found assets	-	16	-	16
Transfers (from)/to reserves	-	(12)	12	-
Balance as at 30 June 2016	26,728	290	6,634	33,652
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

Statement of cash flows (unaudited)

For the year ended 30 June 2017

\$million	Group	
	Actual 2017	Actual 2016
Cash flows from operating activities		
Receipts from customers, rates, grants and other services	3,692	3,453
Interest received	14	13
Dividends received	57	49
Payments to suppliers and employees	(2,528)	(2,324)
Income tax refunded	1	-
Interest paid	(422)	(420)
Net cash inflow from operating activities	814	771
Cash flows from investing activities		
Sale of property, plant and equipment, investment property and intangible assets	107	22
Purchase of property, plant and equipment, investment property and intangible assets	(1,542)	(1,340)
Acquisition of other financial assets	(190)	(76)
Proceeds from sale of other financial assets	308	59
Advances to external parties	(14)	(3)
Proceeds from community loan repayments	6	-
Net cash outflow from investing activities	(1,325)	(1,338)
Cash flows from financing activities		
Proceeds from borrowings	3,919	1,994
Repayment of borrowings	(3,205)	(1,635)
Repayment of finance lease principal	-	(1)
Net cash inflow from financing activities	714	358
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	203	(209)
Opening cash and cash equivalents and bank overdrafts	128	337
Closing cash and cash equivalents and bank overdrafts	331	128