

Auckland Regional Holdings Long Term Funding Plan For the period from 1 July 2004 to 30 June 2014

1. Introduction

This Long Term Funding Plan (LTFP) is the first for Auckland Regional Holdings (ARH). The LTFP is required under the Local Government Act 2002 as amended by the Local Government (Auckland) Amendment Act 2004¹, hereafter known as the Act. The LTFP has been prepared within the terms of the Act.

This LTFP covers the ten-year period from 1 July 2004 to 30 June 2014. It has regard to the Auckland Regional Council's (ARC) current Long Term Council Community Plan (LTCCP). It outlines the board's investment and distribution policies, provides ARH's financial forecasts for the next ten years, the assumptions on which they are based, and the projected distribution of funds from ARH to ARC over that period. Actual outcomes will vary from the forecasts if the assumptions used in the plan are not realised over time.

The ARC has the right to make comment² on, and modify the LTFP by resolution by including or omitting provisions, after consulting the ARH board. The ARC must provide its reasons for proposing any modification. The ARH Statement of Intent (SOI) states that the ARH LTFP should be made available to the public as an annexure to the LTCCP prepared by the ARC.

By 31 January 2005, ARH is required to prepare the draft of its next LTFP³, covering the period from 1 July 2005 to 30 June 2015, which will have regard to the ARC's amended 2004 – 2014 LTCCP. ARH's LTFP and ARTA's funding agreements and Land Transport Programme (LTP) will be summarised in ARC's 2005/6 LTCCP.

¹ Local Government (Auckland) Amendment Act 2004, section 22(1)

² Local Government (Auckland) Amendment Act 2004, section 21(3)-(5)

³ Local Government (Auckland) Amendment Act 2004, section 21(1) and ARH SOI approved by ARC on 27 September 2004

2. Asset Management and Distribution Policies

a) Legal Context

Section 19 (1) of the Act requires ARH to:

- (a) “Act in the long-term interests and for the benefit of the Auckland Region; and*
- (b) Without limiting paragraph (a), manage its assets prudently.”*

Section 19 (2) goes on to outline principles that ARH must be guided by in performing its functions, including:

- (d) Exhibit a sustainable development approach in its decision-making; and*
- (g) Operate in a financially responsible manner and, for this purpose, ---*
 - (i) Endeavor to maintain its long-term financial viability; and*
 - (ii) Prudently manage its assets and liabilities.*

b) General Policy

The ARH board's general policy will be to distribute to ARC all surplus income after meeting its operating expenses and reinvesting sufficient income to at least maintain the value of its asset base and the returns therefrom it in real terms (i.e. after adjusting for the effects of inflation).

The ARH board in producing this LTFP has determined that:

- The Act requires the board to follow a policy of capital and returns maintenance; and
- It is in the long term interests of the Auckland region that ARH at least maintains the value of ARH's asset base and returns in real terms.

This policy will help ensure that:

- i) The long term financial viability of ARH is maintained;
- ii) ARH can continue to provide a funding source for Auckland's infrastructural needs into the future;
- iii) Each generation through time is treated equitably, by giving each generation equivalent access to the income generated from ARH's asset base;
- iv) Auckland will continue to benefit from ARH's tax exempt status;
- v) Funds will be available in the future to maintain and replace Auckland's land transport infrastructure (an obligation that will grow over time); and
- vi) ARH has cash funds available to respond to commercial opportunities as they arise.

This policy will allow ARH to better serve the future needs of the region by incrementally growing its income and distributions.

c) Practical Application of the Policy

The policy of at least maintaining the value of ARH's capital base and returns, and distributing surplus income, is general and long term in nature. The situation may vary from year to year. The following points outline how the board's policy will be applied in practice:

- i) Market prices of ARH's listed equity and fixed income investments are likely to vary from year to year, and ARH will take a long term view in assessing what level of reinvestment is required to at least maintain the value of the asset base and returns in real terms;
- ii) ARH will reserve sufficient funds to meet the existing grant commitments made by Infrastructure Auckland (\$245 million over the ten years of the plan). It is the value of ARH's capital base excluding this figure that the board will at least maintain in real terms (i.e. \$1,018 million at 1 July 2004)
- iii) To facilitate ARC's planning and budgeting process, ARH will commit to have available and distribute whatever figure is in the current LTFP for the first 12 months, even if over this period the ARH portfolio underperforms relative to the assumptions in the LTFP and it is necessary to pay out capital as well as income to meet the distribution commitment;
- iv) In the case of (iii) above, or any other circumstances where the capital base and/or expected returns are diminished relative to ARH's long term targets for maintenance in real terms, the first call on ARH's income in subsequent years will be to replenish the capital base and its expected returns; and
- v) In some years, ARC may not have immediate need for all of the surplus income available to be distributed by ARH. In these circumstances the funds will be reinvested and remain available to the ARC in subsequent years (but subject to the other principles outlined above).

ARH has noted certain distribution commitments in (ii) above and Section 3 below relating to existing Infrastructure Auckland grants, expenditure commitments made during ARH's establishment phase and obligations not otherwise budgeted for by ARC. Going forward, ARH's distributions of income will not be linked to expenditure by ARC or ARTA on particular projects. Rather, ARH's distributions of income are best seen as a pool of funds available to the ARC. It is a matter for the ARC to determine how these funds, and ARC's other sources of income, are best allocated.

ARH's forecasts of future financial performance and cash distributions are dependent on the underlying assumptions used. These assumptions will be reviewed regularly and as a result the forecasts may change. However ARH's commitment to point (iii) above will remain even if assumptions change.

d) New Capital Investments

Separate to the income distribution policies above, ARH may from time to time invest capital in infrastructural assets, or be granted assets (e.g. from ARTA) for nominal consideration. The forecasts in this LTFP do not include any such investment in or ownership of new infrastructural assets. However the ARH board's policies in relation to any future investment or granting of assets are as follows:

- i) If ARH's capital (i.e. funds other than distributions that would normally flow to ARC under the policies outlined above) is invested in an asset, then ARH will require that:
 - a. It has the usual ownership rights to that asset and can manage any risk associated with that asset in a commercially prudent manner ;
 - b. It earns a cash return on the capital invested commensurate with the risk class and economic life of the asset; and
 - c. In the case of a depreciating asset, it withholds from this cash return, and reinvests in ARH's general funds, sufficient cash each year to offset the depreciation (in addition to funds reinvested to offset the effects of inflation on the value of ARH's capital base); and
- ii) If ARH is granted assets (e.g. from ARTA) in which ARH has not invested capital then ARH:
 - a. Will require that ownership rights and the responsibility for risk management are clearly established
 - b. Will not seek to earn a return on the value of the asset unless it is agreed with the ARC that it is appropriate to do so;
 - c. Will charge to recover any depreciation of the asset, and accumulate a cash reserve so that funds are available to contribute to the replenishment of that asset at the end of its economic life; and
 - d. Will not include the asset in the value of ARH's capital base or the returns therefrom when assessing whether the capital base and returns are being maintained over time in real terms.

3. Key Assumptions

Investment Yield

- The total return (cash dividends and capital appreciation) on Ports of Auckland Limited (POAL) shares is assumed to be 8% p.a. throughout the forecast period, calculated off the share price of \$7.05 at 1 July 2004, and then off the forecast opening market value of the shares each year thereafter.
- POAL dividend payments are based on the 2004 actual payment (excluding abnormals) of 31.4 cents per share, growing over the ten year period at a rate of 6.0% p.a. thereafter.
- ARH has not forecast any one-off cash distribution from POAL given the competitive challenges facing the business going forward.
- The assumed pre-tax, nominal returns for the non-POAL financial assets for the year ending 30 June 2005 is 5.7%. For the purposes of planning the assumed return on these funds from 2005 to 2014 is 7% p.a. The split between cash and capital returns will be dependent on a range of market factors and the board's specific investment policies which have not been finalised.

Expenses

- ARH's board approved 2004 - 2005 direct fund management fees, investment management and overhead costs total \$4.657 million. The investment management and overhead costs are currently forecast to increase at the rate of inflation in subsequent years. The fund management fees for 2005-2014 are forecast at 0.5% of funds under management. If the ARH asset base increases in size and/or complexity, the expenses could increase in real terms to reflect this.

Inflation

- The forecasts in this LTFP are presented in nominal terms. The assumed inflation rate is 2.0% p.a. which is the mid point of the Reserve Banks price stability policy target for increases in the Consumer Price Index of between 1% and 3%.

Distribution Commitments

ARH will commit to distribute funds sufficient to meet the following obligations and expenses:

- The ARC stormwater liabilities and ARTA transport liabilities that arise from the former Infrastructure Auckland (IA) grant commitments (\$244.6m over the ten years of the plan).
- The governance funding demand from 1 July 2004 to 31 December 2004 resolved by ARC in June 2004, for which the matching level of distributions were resolved by ARH at its 20 July 2004 Board meeting (\$1.2m).
- The forecast ARC funding demand from 1 January 2005 to 30 June 2005 as notified by ARC to be included in their amended 2004 -2014 LTCCP (\$1.8m).
- The forecast demand for the incremental stormwater programme resolved by the ARC on 27 September 2004 to be included in their amended 2004-2014 LTCCP (\$7.02 m in 2004/5).

Asset Transfers to ARH

No allowance has been made in this plan for the transfer to ARH of assets from other parties.

A more detailed description of these assumptions, and other financial and non financial information to assist with a better understanding of these forecasts, is provided in Appendix B.

4. Financial Forecasts

Table 1 below summarises ARH's 10 year forecasts based on the assumptions outlined in Section 3 above and in Appendix B. The forecasts are shown in greater detail in Appendix A. Table 1 shows the board's forecasts for:

- ARH's sources and level of income and expenses;
- Distributions to the ARC, comprising existing ARH funding commitments and other future available distributions;
- Income retention necessary to at least maintain in real terms the value of the capital base; and
- The value of the asset base over time.

Table 1 Summary of ARH Financial Forecasts

	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	Total
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	Plan
ARH Investment Yield											
POAL Dividends	36	29	31	33	35	37	39	41	44	46	370
Diversified Fund Total Yield	38	37	31	28	27	27	27	27	28	29	299
POAL Share Capital Growth	12	20	20	19	19	18	18	17	16	14	173
Total Gross Yield	86	86	82	80	81	82	84	85	87	89	842
Admin & Funds Management Costs	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(59)
Net ARH Yield	81	79	76	75	75	76	78	79	81	83	783
Distributions											
Legacy IA Grants ⁽¹⁾	81	81	32	32	10	4	3	0	1	-	245
Existing Commitments to ARC	10	-	-	-	-	-	-	-	-	-	10
Further Available Distributions to ARC	51	59	55	53	53	54	55	56	57	58	550
Total Distributions	142	140	86	85	63	58	58	56	58	58	805
Net Yield less Income Distributions to ARC (Required for Capital Maintenance)	20	21	21	22	22	22	23	23	24	24	223
Value of Capital Base											
Opening Capital Value	1,263										
Expected IA Grants Drawdown ^{**}	(245)										
Opening Regional Capital Value	1,018	1,039	1,059	1,080	1,102	1,124	1,147	1,170	1,193	1,217	
Capital Maintenance Requirement	20	21	21	22	22	22	23	23	24	24	
Forecast Regional Closing Value	1,039	1,059	1,080	1,102	1,124	1,147	1,170	1,193	1,217	1,241	
Target Closing Capital Value	1,039	1,059	1,081	1,102	1,124	1,147	1,170	1,193	1,217	1,241	
Capital Value Surplus / (Deficit)	0	0	(0)	(0)	0	0	(0)	0	0	0	

*1 Assumes that a total of \$245 million of ARH's liquid funds are "reserved" to meet the existing Infrastructure Auckland grant commitments. The drawdowns from that IA grant reserve are not treated as income distributions to the ARC.

Note a total of \$245 million of ARH's liquid funds are "reserved" to meet the former IA grant commitments. This reserve is excluded from the starting value of the capital base in calculating the value of the capital base over time, and the draw downs from this reserve are not treated as income distributions to the ARC

The forecasts show:

- Total distributions (committed and available) over the 10 year period of \$ 805 million;
- The value of the capital base and returns therefrom (excluding the funds reserved for the legacy IA grants) being maintained in real terms; and
- An ARH portfolio gross yield of over \$ 89 million in nominal terms in the year 2014, with the potential to generate this every year thereafter under the board's policy of maintenance of ARH's capital base and returns.

Figures 1 to 3 below present the forecasts graphically.

Figure 1 ARH Investment Yield

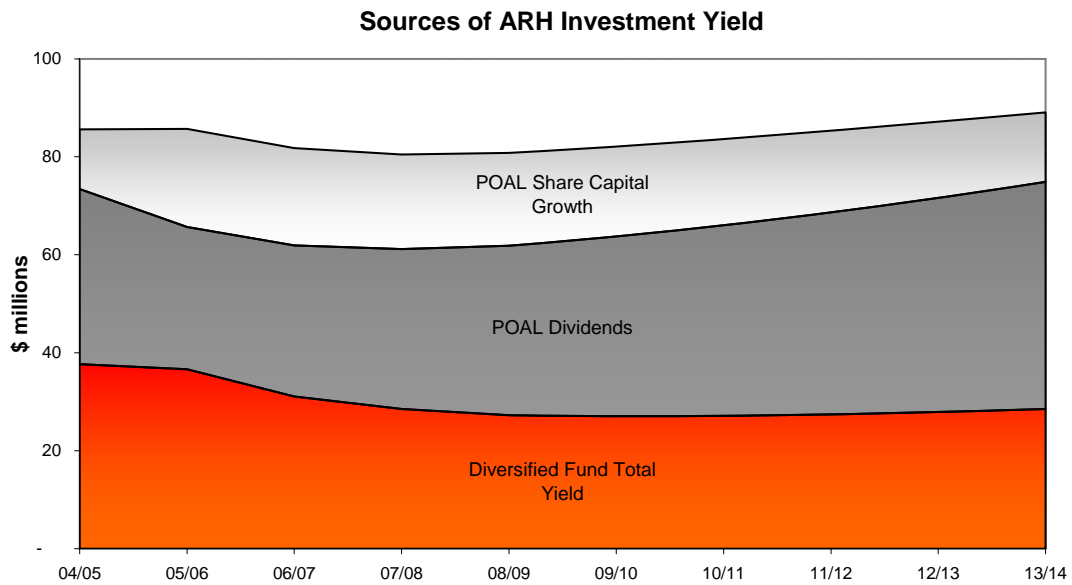


Figure 1 shows the total gross yield of ARH’s portfolio (before operating expenses) growing with inflation from \$78 million (after having abnormal 04/05 dividend removed) to \$89 million over the next 10 years. Figure 1 also shows the forecast breakdown in sources of cash yield and capital appreciation.

Figure 2 shows the income funded distributions, income reserved to ensure capital maintenance, and capital distributed to meet IA grants over the 10 year period.

Figure 2 Income vs. Distributions

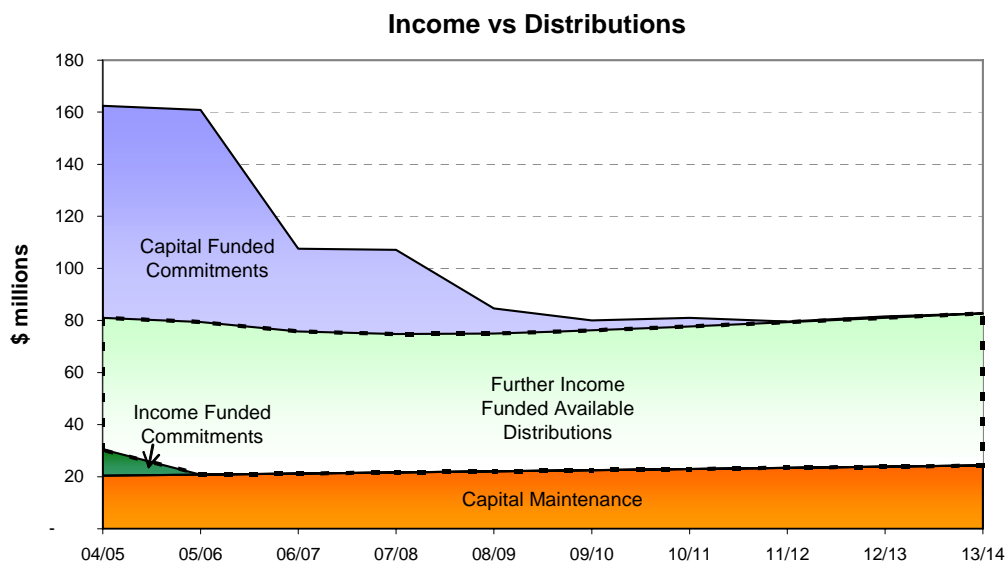
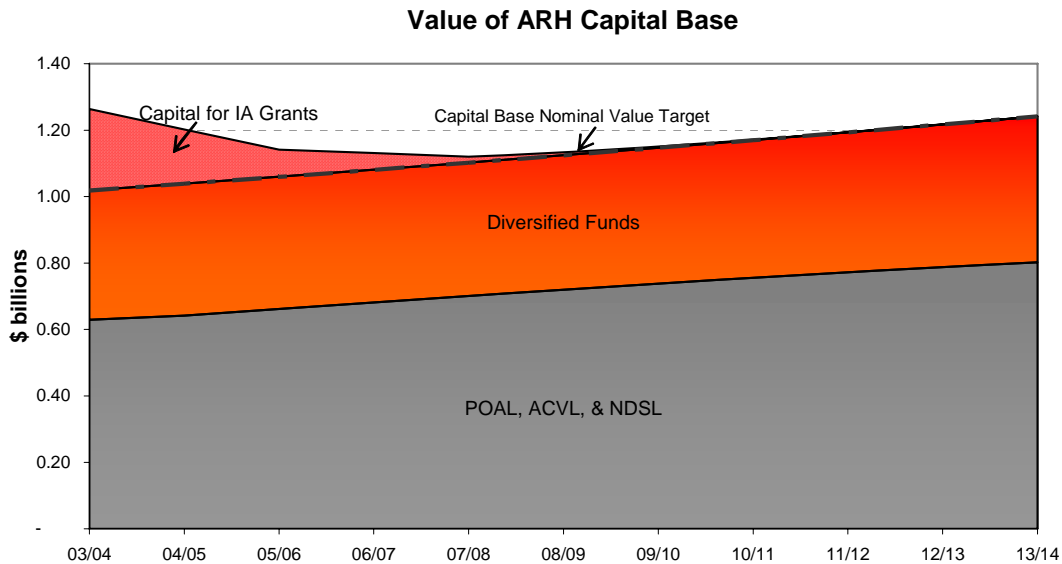


Figure 3 shows the target value for ARH's capital base growing with inflation from \$1,018 million as at 1 July 2004 to \$1,241 million in 2014. The reserves set aside for the funding of the IA legacy grants are forecast to be no longer materially required by 2011/12.

Figure 3 ARH Capital Base



5. Key Risks

The key risks to the forecasts in this plan being achieved relate to the actual capital appreciation and cash return achieved in any one year and over the cumulative period of the plan. A quantification of the funding distribution impact of a less than planned investment yield from either of the POAL equity investment or from that in the Diversified Fund can be seen in below in figure 4.

Figure 4

	Change in Funding Available for Distribution	
	Yield reduction of 1% in 2005/06 05/06 Yr change \$m	Yield reduction of 1% all plan ten years 10 Yr cum. plan change \$m
1% Reduction in Diversified Fund yield	(5.1)	(37.5)
1% Reduction in POAL yield	(6.0)	(67.6)
1% Reduction both POAL & Diversified Fund yield	(11.2)	(109.1)

Figure 4 demonstrates that;

- i) a 1% reduction in the achieved yield from the diversified fund would result in a reduction of funds available for distribution of approximately \$5.1m in any one year;
- ii) a 1% reduction in the achieved yield from both the Diversified Fund and from the POAL equity investments would result in a reduction of funds available for distribution of approximately \$11.2m in any one year; and

iii) a 1% reduction in the achieved yield from both the Diversified Fund and from the POAL equity investments over the term of the plan would result in a total reduction of funds available for distribution of over \$109m.

6. Investment and Treasury Management Policies

The ARH board's investment policy will be shaped by the following key factors:

- i) The general policy of at least maintaining the value of the capital base for the long term;
- ii) Our responsibility to maximise total returns (both cash yield and capital appreciation), within prudent risk limits, for the long term benefit of the Auckland region;
- iii) The need to maintain sufficient liquidity to meet ARH's distribution commitments in the first 12 months of the current LTFP; and
- iv) The large proportion that POAL shares represent of ARH's total asset portfolio.

Factors (i) and (ii) above suggest that an investment policy similar to that operated by the manager of a superannuation fund is appropriate (i.e. that a significant proportion of ARH's treasury funds should be invested in equities, for the higher long term, risk adjusted returns expected from that asset class). However, given the size of the existing POAL equity exposure, the board is likely to:

- i) adopt a lower equity weighting in the remaining diversified fund than would otherwise be the case; and
- ii) avoid further equity exposure to the sectors in which POAL operates.

Within this broad framework the ARH board will over the next few months finalise the details of its investment and treasury management policies.

6. Liability Management Policy

ARH has no current or forecast bank debt or other interest bearing financial liabilities to third parties. The main liabilities entered into by ARH are the one year distribution commitments made in the LTFP.

The liability management policy provides assurance to external parties and stakeholders that liabilities will be able to be met as they fall due. To this end, ARH will:

- i) At all times maintain sufficient accessible funds to cover on demand the total quantum of current liabilities and identified contingent liabilities that may fall due over the subsequent 12 months; and
- ii) Ensure that no additional liability obligations are created that could cause ARH to be in contravention of i) above.

7. Ratio of Consolidated Funds

The ARH Statement of Intent (SOI) requires that ARH set a ratio of consolidated ARH equity to total assets in determining its investment and borrowing policies for its

LTFP. ARH will ensure the ratio of consolidated ARH equity⁴ to the total assets⁵ of ARH is greater than 75% at all times, consistent with a prudent view of the management of regional assets.

⁴ Consolidated equity means the sum of the amount of opening balance vested equity, retained earnings, accumulated losses, revenue and capital reserves of ARH.

⁵ Total Net Assets means the sum of the net book values of fixed assets, investments, intangible assets, and current assets (excluding the value of funds identified to fund the IA grant commitments) less non-current liabilities less current liabilities as disclosed in the ARH's Statement of Financial Position prepared on a consolidated basis and in accordance with generally accepted accounting practice.

APPENDIX A

Statement of Forecast Financial Performance (Year ending 30 June)

(\$000's)

	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	Total
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	10 Years
Revenues											
POAL Dividends - Ordinary	28,021	29,073	30,817	32,666	34,626	36,704	38,906	41,241	43,715	46,338	362,107
POAL Dividends - Asset sale component ⁽¹⁾	7,704	-	-	-	-	-	-	-	-	-	7,704
Diversified Fund Total Yield	37,679	36,625	31,090	28,494	27,238	27,036	27,120	27,413	27,904	28,524	299,122
Other Income	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	73,405	65,697	61,908	61,160	61,864	63,740	66,026	68,653	71,619	74,862	668,934
Direct Costs of Funds Management	(1,259)	(2,845)	(2,438)	(2,171)	(2,139)	(2,141)	(2,152)	(2,186)	(2,226)	(2,280)	(21,835)
Gross Margin	72,146	62,853	59,469	58,989	59,726	61,599	63,874	66,467	69,393	72,582	647,099
Overheads											
Administration	(3,373)	(3,435)	(3,505)	(3,576)	(3,648)	(3,721)	(3,796)	(3,872)	(3,949)	(4,028)	(36,903)
Interest Costs	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total Overheads	(3,373)	(3,435)	(3,505)	(3,576)	(3,648)	(3,721)	(3,796)	(3,872)	(3,949)	(4,028)	(36,903)
Net Surplus before Taxation	68,773	59,418	55,964	55,413	56,078	57,878	60,079	62,596	65,444	68,554	610,196
Taxation	-	-	-	-	-	-	-	-	-	-	-
Net Surplus	68,773	59,418	55,964	55,413	56,078	57,878	60,079	62,596	65,444	68,554	610,196
ARC Committed Distributions	(91,500)	(81,447)	(31,674)	(32,349)	(9,694)	(3,764)	(3,374)	(337)	(521)	-	(254,661)
Other Available Distributions	(50,524)	(58,700)	(54,700)	(53,100)	(52,900)	(53,800)	(54,800)	(55,800)	(57,200)	(58,400)	(549,924)
Net Surplus after Distributions	(73,251)	(80,729)	(30,410)	(30,036)	(6,516)	314	1,904	6,458	7,723	10,154	(194,390)
POAL Share Equity Appreciation	12,214	20,029	19,873	19,332	18,919	18,355	17,621	16,696	15,558	14,179	172,777
Net Change in Accumulated Funds & Reserves	(61,037)	(60,700)	(10,537)	(10,704)	12,403	18,669	19,525	23,155	23,281	24,334	(21,613)

Note: (1) POAL Ordinary Dividend received in September 2004 included a one-off gain from asset sale, separately disclosed for transparency.

APPENDIX A

Statement of Forecast Financial Position (as at 30 June)

(\$'000's)

2004 June	04/05 FY	05/06 FY	06/07 FY	07/08 FY	08/09 FY	09/10 FY	10/11 FY	11/12 FY	12/13 FY	13/14 FY	
Assets											
Current Assets											
Cash	6,295	768	916	473	1,295	1,154	1,009	851	658	422	129
Diversified Fund	615,862	547,439	466,556	436,585	405,724	399,348	399,805	401,866	408,517	416,477	426,923
ACVL Loan Asset	11,739	12,168	12,168	12,168	12,168	12,168	12,168	12,168	12,168	12,168	12,168
Other											
Total Current Assets	633,895	560,375	479,640	449,226	419,187	412,670	412,982	414,886	421,343	429,067	439,221
Non Current Assets											
Furniture, Fittings & Equipment	48	32	38	41	44	45	46	47	48	48	48
Investments in Subsidiaries											
ACVL	29,155	29,155	29,155	29,155	29,155	29,155	29,155	29,155	29,155	29,155	29,155
NDSL	22,957	22,957	22,957	22,957	22,957	22,957	22,957	22,957	22,957	22,957	22,957
POAL	597,868	610,082	630,111	649,984	669,316	688,235	706,590	724,211	740,908	756,466	770,645
Other											
Total Non-Current Assets	650,028	662,227	682,261	702,137	721,472	740,393	758,749	776,371	793,067	808,625	822,805
Total Assets	1,283,924	1,222,601	1,161,901	1,151,364	1,140,660	1,153,062	1,171,731	1,191,256	1,214,411	1,237,692	1,262,026
Liabilities											
Current Liabilities											
ACVL - Advance	350	350	350	350	350	350	350	350	350	350	350
NDSL - Advance	20,137	20,137	20,137	20,137	20,137	20,137	20,137	20,137	20,137	20,137	20,137
Operating Creditors & Accruals	629	344	344	344	344	344	344	344	344	344	344
Total Current Liabilities	21,116	20,831	20,831	20,831	20,831	20,831	20,831	20,831	20,831	20,831	20,831
Non Current Liabilities											
Borrowing	-	-	-	-	-	-	-	-	-	-	-
Total Non Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	21,116	20,831	20,831	20,831	20,831	20,831	20,831	20,831	20,831	20,831	20,831
Total Net Assets	1,262,808	1,201,771	1,141,070	1,130,533	1,119,829	1,132,232	1,150,901	1,170,426	1,193,580	1,216,862	1,241,195
Total Accumulated Funds & Reserves	1,262,808	1,201,771	1,141,070	1,130,533	1,119,829	1,132,232	1,150,901	1,170,426	1,193,580	1,216,862	1,241,195
Legacy IA Grant Commitments (ARC & ARTA Liability)	(244,601)	(163,161)	(81,714)	(50,039)	(17,690)	(7,997)	(4,233)	(858)	(521)	-	
Growth in Nominal Capital Base - Forecast Actual	102.00%	104.04%	106.12%	108.24%	110.41%	112.62%	114.87%	117.17%	119.51%	121.90%	
Growth in Nominal Capital Base - Target	102.00%	104.04%	106.12%	108.24%	110.41%	112.62%	114.87%	117.17%	119.51%	121.90%	

APPENDIX A

Statement of Forecast Cashflows (Year ending 30 June)

(\$000's)

	04/05 FY	05/06 FY	06/07 FY	07/08 FY	08/09 FY	09/10 FY	10/11 FY	11/12 FY	12/13 FY	13/14 FY	Total 10 Years
Cashflow from Operating Activities											
Operating Income & Expenses											
POAL Dividends - Ordinary	28,021	29,073	30,817	32,666	34,626	36,704	38,906	41,241	43,715	46,338	362,107
POAL Dividends - Abnormal	7,704	-	-	-	-	-	-	-	-	-	7,704
Diversified Fund Income ⁽¹⁾	37,250	36,625	31,090	28,494	27,238	27,036	27,120	27,413	27,904	28,524	298,693
Other Income	-	-	-	-	-	-	-	-	-	-	-
Working Capital Change	(285)	-	-	-	-	-	-	-	-	-	(285)
Miscellaneous Operational Capex	-	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(144)
Administration Payments	(3,357)	(3,424)	(3,493)	(3,563)	(3,634)	(3,706)	(3,781)	(3,856)	(3,933)	(4,012)	(36,759)
Diversified Fund Direct Costs	(1,259)	(2,845)	(2,438)	(2,171)	(2,139)	(2,141)	(2,152)	(2,186)	(2,226)	(2,280)	(21,835)
Borrowing Interest Costs	-	-	-	-	-	-	-	-	-	-	-
Net Operating Cashflows	68,075	59,413	55,961	55,410	56,076	57,877	60,078	62,595	65,444	68,554	609,482
Net Operating Cashflow	68,075	59,413	55,961	55,410	56,076	57,877	60,078	62,595	65,444	68,554	609,482
Cashflow from Investing Activities											
Capital realisations / sale of subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Proceeds on Repayment of Advance	-	-	-	-	-	-	-	-	-	-	-
Net Investing Cashflows	-	-	-	-	-	-	-	-	-	-	-
Cashflow from Financing & Distribution Activities											
Transport grant liability payments	(67,514)	(59,268)	(14,217)	(24,878)	(900)	-	-	-	-	-	(166,777)
Stormwater grant liability payments	(13,926)	(22,179)	(17,458)	(7,471)	(8,793)	(3,764)	(3,374)	(337)	(521)	-	(77,824)
Other ARC Funding Payments	(3,043)	-	-	-	-	-	-	-	-	-	(3,043)
ARC Stormwater Action Plan Funding	(7,017)	-	-	-	-	-	-	-	-	-	(7,017)
Other Distributions Available	(50,524)	(58,700)	(54,700)	(53,100)	(52,900)	(53,800)	(54,800)	(55,800)	(57,200)	(58,400)	(549,924)
Total LTFP Distributions	(142,024)	(140,147)	(86,374)	(85,449)	(62,594)	(57,564)	(58,174)	(56,137)	(57,721)	(58,400)	(804,585)
Net Financing & Distributions Cashflow	(142,024)	(140,147)	(86,374)	(85,449)	(62,594)	(57,564)	(58,174)	(56,137)	(57,721)	(58,400)	(804,585)
Net Cash Inflow / (Outflow)	(73,950)	(80,735)	(30,414)	(30,039)	(6,518)	313	1,903	6,458	7,723	10,154	(195,103)
Opening Cash Balance	622,156	548,206	467,472	437,058	407,019	400,502	400,814	402,718	409,175	416,899	
Closing Cash Balance	548,206	467,472	437,058	407,019	400,502	400,814	402,718	409,175	416,899	427,053	

(1) Assumed to be all cash income for the purpose of this cash flow statement.

Appendix B - Financial Assumptions

This appendix documents the key financial assumptions in the 2004/05 ARH LTFP.

General

All elements of the plan have been prepared on a nominal value basis rather than in real value terms.

The assumed inflation rate is 2.0% p.a. which is the mid point of the Reserve Bank's price stability policy target for increases in the Consumer Price Index of between 1% and 3%.

The convention adopted with respect to transaction recognition is 'cash accounting' rather than 'accrual accounting'. A material example being the receipt of Ports of Auckland dividends, which are recognised in the Balance Sheet at the time of distribution rather than at time of announcement.

ARH has no forecast borrowings throughout the term of the plan.

Consistent with ARH's income tax exempt status, no income tax is payable or receivable throughout the term of the plan.

Non-POAL Financial Instruments

Returns Year ending 30 June 2005

Forecast return of 5.7% for the year ending 30 June 2005, all as cash yield. This represents the return on funds invested in fixed interest securities from July to October, in cash from November through March, and in a diversified investment from April on.

Return 1 July 2005 to 30 June 2014

The assumed return on the diversified investment portfolio from 2005 to 2014 is 7% p.a. The split in return between cash yield and capital growth is not known at this stage. For planning purposes ARH assumes that any capital growth in this liquid fund can reasonably be converted into cash.

Funds Management Fees Year ending 30 June 2005

To provide funds management across a changing investment portfolio as described above in the year to June 2005 it is estimated that a fee of approximately 20 points (0.2%) of the total funds balance will be charged.

Funds Management Fees 1 July 2005 to 30 June 2014

Funds management charges on a growth and diversified fund is expected to be approximately 50 points (0.5%) of the total funds balance.

Cash Advances by 100% Subsidiaries

Subsidiary funds advanced have been invested in ARH's liquid portfolio where they are assumed to return the same investment yield as outlined above. For the purposes of the plan, recognition of the interest return on subsidiary advances is through the overall ARH liquid portfolio fund investment yield.

\$ 000's		
Advances to ARH by subsidiaries	01/09/04	
NDSL	20,137	Maintained for term of plan
ACVL	<u>350</u>	Maintained for term of plan
Total	<u>20,487</u>	

Other Investments and Subsidiaries

Ports of Auckland Limited (POAL)

Full consolidation of subsidiary financials has not been undertaken for the purposes of preparing the LTFP.

Capital Value

The investment in POAL is recorded at the company's share price on 1 July 2004 (beginning of plan) of \$7.05. Auckland Regional Holdings holds 84,803,975 shares in POAL and no sales of any of the shares in POAL have been forecast.

The total return on investment in POAL is assumed to be 8.0% p.a. This return on investment is delivered to Auckland Regional Holdings by way of dividend streams and market value appreciation of the listed share price.

Dividends

POAL dividend payments are based on the 2004 actual payment (excluding abnormals) of 31.4 cents per share, growing over the ten year period at a rate of 6.0% p.a. thereafter

America's Cup Village Limited (ACVL)

ACVL is assumed to have a net asset value of \$29.2 million, net of an interest bearing loan from ARH of \$12.2 million. This value is assumed to be maintained in nominal terms in perpetuity for the purposes of the plan. The value of ACVL is based on the net asset value of the company shown in its audited accounts to 30 June 2004.

Northern Disposal Systems Limited (NDSL)

The NDSL investment and its advance to ARH is assumed to be maintained in nominal terms throughout the period of the plan.

The only substantive financial asset held by NDSL is the non interest bearing advance to ARH. The assumed return on these advanced funds is discussed above under the heading 'Cash Advances by 100% Subsidiaries'.

Overheads

Total overheads forecast for the year to June 2005 reflect the ARH board approved budget. Actual results are used for the three months to September 2004, with the remaining nine months of the 2004/05 financial year containing budgeted spend.

Overhead costs after 30 June 2005 excluding fund management fees, are assumed for the purposes of the plan to grow by the rate of CPI inflation.

Distribution Commitments

ARH will distribute funds at least to meet the following commitments.

ARC Transport and Stormwater Grant Commitments

ARH will fund the ARC stormwater liabilities and ARTA transport liabilities that arise from the former Infrastructure Auckland grant commitments. (\$244.6m over the ten year plan). Although these grant commitments do not represent a liability to ARH, ARH has notionally reserved that capital received on establishment of ARH to be available for the ARC and ARTA to meet these commitments.

ARC Governance Costs

ARH will fund the Governance funding demands for the period from 1 July 2004 to 31 December 2004 resolved by ARC in June 2004 (\$1.2m) and the ARC estimated forecast governance funding demand for 1 January 2005 to 30 June 2005 (\$1.8m).

ARC Stormwater Action Plan

ARH will meet the forecast demand for the incremental stormwater programme proposed by ARC in their LTCCP. Funding distribution demand has been made by ARC for the first year of this Action Plan (\$7.0m 2004/5). The expected demand for this programme is \$48.1m over ten years.

Beyond the specified commitments above, ARH will make further income funded distributions to the ARC under the policies outlined in Section 2 of the LTFP and as forecast in Section 4 of this plan.