

**Auckland Regional Holdings
Statement of Intent**

**For the period from
1 July 2006 to 30 June 2009**

**Approved by the Auckland Regional Holdings
Board, 20 June 2006**

**Auckland Regional Holdings
Statement of Intent
For the period from 1 July 2006 to 30 June 2009**

1. Introduction

This Statement of Intent (SOI) is the third for Auckland Regional Holdings (ARH). It has been prepared within the terms of the Local Government Act 2002 (the principal Act), as amended by the Local Government (Auckland) Amendment Act 2004 (the Act), and the rules established for ARH. It signals how Auckland Regional Council (ARC), to whom ARH is directly accountable and ARH will work together to achieve the overall objectives of the ARC group in the best interests of the Auckland region.

The SOI specifies, among other things, the objectives of ARH as agreed with ARC, the Board's approach to governance of the organisation, the nature and scope of the activities to be undertaken, the performance targets and other measures by which the performance of the organisation may be judged in relation to its objectives, and the financial and other information to be provided to the ARC. This SOI should be read in conjunction with Schedule 8 of the Local Government Act 2002.

All decisions relating to the operation of ARH must be made by, or under the authority of, the Board of ARH in accordance with its SOI, its Rules and relevant legislation.

The ARC has the right to vary the SOI by resolution, after consulting the ARH Board and the ARC must provide its reasons for proposing any modification.

This SOI is a public document.

2. Purpose of Statement of Intent

The purpose of this SOI is to:

- (a) State publicly the activities and intentions of ARH and the objectives to which those activities will contribute; and
- (b) Provide a basis for the accountability of the directors of ARH to the ARC for the performance of the organisation and its subsidiaries.

The Local Government Act 2002 requires that the ARC include in its Long Term Council Community Plan the performance targets and other measures by which ARH's performance will be judged. This SOI provides the basis for these targets and measures for the 2006 - 2016 Long Term Council Community Plan. The Annual Reports of both ARH and the ARC will also report on ARH's performance against this SOI.

3. Background

Auckland Regional Holdings was established under the Local Government (Auckland) Amendment Act 2004, which came into force on 1 July 2004, as a statutory council controlled organisation accountable to the ARC.

ARH is charged with managing its assets and liabilities prudently and co-operating with the ARC and Auckland Regional Transport Authority (ARTA) to assist in achieving the overall objectives of the ARC, ensuring prudent stewardship and the efficient and effective use of resources, undertaking its commercial activities in accordance with sound business practice and concurrently exhibiting a sustainable development approach in its decision making.

4. Objectives of ARH

Clause 19 (1) of the Act provides that:

1. *The objective of ARH is 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.*

The five ARH objectives are:

- a) ARH manages its investment portfolio to maximize ARH's long run disbursements to the ARC, without compromising the achievement of the ARC's other objectives for ARH
- b) ARH, through its ownership and governance of POAL, ensures that POAL continues to operate as a successful business contributing to the region's economic well-being
- c) ARH contributes to the ARC's Auckland waterfront objectives
- d) ARH takes a sustainable development approach, consistent with its principles and the principles of the ARC; and
- e) With respect to best practice governance, that:
 - ARH and its subsidiaries meet best practice governance standards;
 - ARH ensures that the ARC is well-informed, as required by its SOI, Rules and the "No Surprises"¹ policy;
 - ARH meets its statutory requirements, which assists the ARC to meet the ARC's statutory functions of monitoring ARH; and
 - ARH adopts common branding and communication protocols.

5. ARH Vision and Mission

ARH's vision is:

"The Auckland Region is internationally recognised for its high-quality living and natural environments and its vibrant and strong communities. The quality of life in the Auckland region is enhanced by sound and sustainable management of key assets and infrastructure."

This aligns with the ARC vision.

ARH's Mission Statement is:

"By bringing the best available expertise to bear upon management of its assets, ARH will contribute to the resources with which the ARC can address regional infrastructure needs. ARH will do so by owning and managing selected regional assets and investments in

¹ Refer to page 4, 6 (c) "No Surprises Approach".

accordance with sound business practice and sustainable development principles. It will provide funds to the ARC while protecting those assets under its stewardship.”

6. Statement of the ARH Board’s approach to the Governance of the Group

(a) Introduction

ARH is a statutory entity, being a council controlled organisation accountable to the ARC. It was established to assist the ARC to fulfil its responsibilities and must act in the long-term interests of the Auckland region. This makes ARH a unique organisation with broader objectives than a commercial corporate entity, but still required to meet the same financial standards.

(b) Governance Approach

The Board of ARH is committed to the highest standards of governance and business behaviour. The Board will continue to monitor developments in corporate and public sector governance to ensure ARH implements the highest standards of governance at all times.

In undertaking its current and future activities ARH will exhibit and ensure:

- Sound business practice in its commercial undertakings;
- Sustainable business practice;
- Ethical and good behaviour in dealing with all parties;
- An active partnership approach with ARC and ARTA and key ARC Group stakeholders.

(c) No Surprises Approach

ARH will adopt a ‘no surprises’ approach in its dealings with the ARC, and will ensure the ARC are informed well in advance of anything considered potentially contentious in the public arena, whether the issue is inside or outside issues outlined in the SOI, ARH Rules and the relevant legislation. ARH will allow sufficient time for the ARC to comment before implementing strategic initiatives such as:

- major new investments;
- material changes in the capital structure of ARH or any subsidiary;
- a significant restructure in response to a major change in the business environment;
- Change of ownership (or ownership structure) of strategic assets (as defined by the ARC at its meeting of 26 September 2005), including strategic assets owned by POAL;
- Major new business initiatives that are outside the scope of, or have an impact on the achievement of forecasts and objectives in, ARH’s LTFP or SOI, or the SCI/SOIs of subsidiaries (including the commercial objectives of POAL);
- Strategic issues relating to the waterfront development, including the use or ownership of waterfront assets.

The ARH Board will keep in mind that the ARC has interests wider than those of ordinary shareholders in private companies, and will be sensitive to the demand for accountability placed on the ARC from citizens, ratepayers, and other bodies who hold the ARC directly accountable for ARH, irrespective of the legal definition of the roles of the respective parties.

(d) Role of the Board

All decisions relating to the operation of ARH will be made by, or under the authority of, the Board of ARH in accordance with its SOI, Rules and relevant legislation.

2006 – 2009 ARH SOI

The Board is accountable to the ARC to ensure that ARH:

- Achieves its objectives;
- Performs its functions;
- Acts in accordance with relevant legislation and ARH Rules; and
- Achieves the objectives, performance targets and other measures set out in this SOI.

The Board will:

- Obtain full and timely information necessary to discharge its obligations fully and effectively;
- Actively review and direct the overall strategy of ARH;
- Actively review its Policies and Delegations;
- Negotiate the SOI with the ARC;
- Monitor the external and internal environment and identify, evaluate and mitigate controllable risk factors;
- Ensure ARH remains, an effective, focused organisation with core competencies and appropriate systems necessary to carry out its functions; and
- Undertake appropriate training to ensure Directors remain current on how best to perform their duties as Directors;
- Manage and monitor the performance of the Chief Operating Officer; and
- Provide leadership in relationships with key stakeholders.

(e) Board Committees

When establishing any Committee the Board will:

- Produce written terms of reference that describe its authority, duties, responsibilities and relationship with the Board; and
- Review regularly the performance of the Committee having regard to those terms of reference.

The Board has established the following committee:

Assurance and Risk Committee

The principal function of the assurance and risk committee will be to assist the Board in producing accurate financial statements in compliance with all applicable legal requirements and accounting standards.

The role of the Assurance and Risk Committee is to be responsible for overseeing the financial accounting and audit activities of Auckland Regional Holdings, including:

- compliance with all applicable legal requirements and accounting standards;
- reviewing the adequacy and effectiveness of internal controls;
- ensuring that the ability and independence of the external auditors to carry out their statutory audit role is not impaired in any way;
- determining what services, if any, may be provided by the external auditors in addition to their statutory audit role;
- communicating, meeting with and reviewing the performance of the external auditors; and
- reviewing and making recommendations to Auckland Regional Holdings.

To review and monitor the procedural implementation of Auckland Regional Holdings' policy in relation to the Local Authorities Members Interest Act, including:

- monitoring compliance; and

2006 – 2009 ARH SOI

- making recommendations and reporting to Auckland Regional Holdings on compliance and implementation matters.

(f) Relationship with Subsidiaries

ARH will hold shares in a number of subsidiary companies. All decisions relating to the operation of each of those companies must be taken by, or under the authority of, the Board of that company, in accordance with its SOI/Statement of Corporate Intent (SCI) (if any), its constitution, and any applicable legislation. The constitutions, SOI and other expectations of ARH subsidiaries are strongly aligned with the objectives requirements and expectations in the ARH Rules, SOI and LTFFP.

ARH will:

- Act as a diligent, constructive and inquiring shareholder;
- Actively monitor strategic issues affecting its subsidiaries;
- Ensure the Boards of the subsidiaries address those issues in a timely manner; and
- Ensure that its subsidiaries are operated on a basis that is not inconsistent with; and contributes to, ARH's SOI and ARC's long term strategic objectives.

ARH has adopted a policy that sets out an objective and transparent process for:

- The identification and consideration of the skills, knowledge, and experience required of directors of each of its subsidiaries;
- The appointment of those directors; and
- The remuneration of those directors.

The costs of the governance of ARH subsidiaries will reflect the statutory objective of ARH being to act in the long-term interest and for the benefit of the Auckland region. ARH policy will not be inconsistent with ARC's policy on appointment and remuneration of directors, which is required under the Local Government Act 2002; and Local Government (Auckland) Amendment Act 2004.

ARH will appoint a person to be a director of a subsidiary only if the person has, in the opinion of the Board of ARH, the skills, knowledge, or experience to:

- Guide the subsidiary, given the nature and scope of its activities; and
- Contribute to the achievement of the objectives of the subsidiary.

ARH will elect directors to the Board of the Ports of Auckland Limited consistent with the Port Companies Act 1988.

ARH will ensure it has a robust and transparent policy and process for:

- Establishing performance targets and measures for each of its subsidiaries; and
- Monitoring the performance of the directors of each of its subsidiaries on a regular basis.

7. Ratio of Consolidated Funds

ARH will ensure the ratio of consolidated ARH equity to total assets is greater than 50% at all times when determining its investment and borrowing policies for its Long Term Funding Plan. This ratio as at 31 December 2005 is 69%. The forecast ratio over the period of this SOI 2006-2009 falls into the range of 65% to 75%

8. Distributions to the ARC

The estimate of the distribution of funds that is intended to be distributed to the ARC is recorded in the forecast financial statements in the Long Term Funding Plan.

9. Nature and Scope of Activities

ARH will (directly or via an ARH controlled organisation) hold the following:

- 106,005,192 shares in Ports of Auckland Limited (“POAL”), being 100% of the issued share capital of POAL;
- 64,400,000 shares in America’s Cup Village Limited (“ACVL”), being 100% of the issued share capital of ACVL;
- 16,000,000 shares in Northern Disposal Systems Limited (“NDSL”), being 100% of the issued share capital of NDSL; and
- And other financial investments.

ARH will provide a minimum of 14 days notice and obtain the prior written approval of the ARC before it enters into any transaction or series of linked transactions which constitutes:

- The acquisition or disposal of any strategic asset or any other asset having a value exceeding 5% of the market value of ARH’s tangible assets;
- The effect of ARH acquiring rights or interests or incurring obligations or liabilities having a value exceeding 5% of the market value of ARH’s tangible assets; and
- A change in the essential nature or scope of the activities of ARH or any ARH company,

except for any transaction authorised under ARH’s long term funding plan or undertaken by the Ports of Auckland Limited.

To the extent that any acquisition or disposition of an asset by Ports of Auckland Limited (or any subsidiary of Ports of Auckland Limited) requires the approval of ARH, in its capacity as a shareholder, under the Companies Act 1993 or the constitution of Ports of Auckland Limited, the Board will ensure that ARH gives or does not give any such approval (as the case may be) in accordance with any direction of the ARC regarding that matter received by the Board prior to giving or not giving (as the case may be) such approval.

ARH will manage its assets, and take all appropriate action to fulfil the functions and objectives described in paragraph 4, in the long-term interests of the Auckland region in accordance with the principles set out in section 19(2) of the Act.

2006 – 2009 ARH SOI

Objective	Supporting Activity	Performance Measure	Target
		<p>Establish investment targets for a range of asset classes within the investment portfolio.</p> <p>Investment strategy and fund managers are monitored by independent external advisors as appropriate.</p> <p>The SOI/SCIs for 100% subsidiaries are agreed and operative.</p> <p>95% assurance of paying 100% of years 1 to 3 LTFP distributions.</p> <p>75% assurance of paying 90% of years 4 to 10 LTFP distributions.</p> <p>Maintaining fund in satisfactory financial condition.</p>	<p>To be developed subsequent to implementation of appropriate asset allocation to meet long term return objectives.</p> <p>Quarterly reporting to ARH.</p> <p>100% subsidiaries meet their SOI/SCI targets.</p> <p>100% compliance.</p> <p>Ensure that investment strategy provides 75% probability of achieving LTFP distributions for years 4 to 10.</p> <p>By not exceeding the credit criteria for borrowing used to finance distributions with interest costs at no more than 40% of total expected earnings.</p>
<p>2. ARH ensures POAL continues to operate as a successful business.</p>	<p>Preparation and consultation of best practice SCI for POAL.</p>	<p>ARH consults ARC on POAL's SCI, and includes supporting information on POAL's strategy and forecast financial performance to allow the ARC to make informed comment on ARH's draft SOI and LTFP, and POAL's SCI.</p>	<p>The ARC Chair and CEO are satisfied with the adequacy of the business strategy and financial performance information provided to support consultation on the SOI, LTFP and SCI.</p>

Note: Risk around performance target relating to ARH investment portfolio, to be identified on implementation of asset allocation.

2006 – 2009 ARH SOI

Objective	Supporting Activity	Performance Measure	Target
	<p>Governance of POAL.</p> <p>Monitoring and reporting on POAL.</p>	<p>Robust director review and appointment process covering</p> <ul style="list-style-type: none"> - Board skill and composition - Annual Board review - Appointment process. <p>Regular reporting of POAL's performance.</p> <p>ARC is well informed of strategic issues affecting POAL.</p> <p>ARH has performance measures and benchmarks that measure POAL's profitability (including cost of capital), efficiency, and contribution to the regional economy.</p>	<p>ARH has policies in place</p> <p>Quarterly, half-yearly and full year reports provided to the ARC by ARH.</p> <p>ARC Chair and CEO is satisfied with the adequacy of information provided on strategic issues affecting POAL.</p> <p>Performance measures and benchmarks agreed with ARC by 30 June 2006, and are reported (on a confidential basis if necessary) by ARH on a quarterly basis from 2006/07.</p>
		<p>ARH provides an analysis of POAL's performance against its cost of capital.</p>	<p>Analysis is provided to ARC as part of ARH's end of year reporting on its performance and the performance of its subsidiaries.</p>

2006 – 2009 ARH SOI

Objective	Supporting Activity	Performance Measure	Target
	Capital structure of POAL.	POAL's capital structure is consistent with best practice.	<p>ARH develops appropriate benchmarks for POAL's capital structure.</p> <p>ARH advises annually on a confidential basis on POAL's capital structure against its benchmarks and external standards, and advises on material departures.</p>
	Performance of POAL against targets.	POAL achieves performance targets in its SCI.	All performance targets in POAL's SCI achieved.
3. ARH contributes to the ARC's Auckland waterfront objectives.	Working with the ARC to achieve the ARC's Auckland waterfront objectives.	<p>Agreement is reached with the ARC that defines the roles and responsibilities of the ARC, ARH, and its subsidiaries, with respect to waterfront development. At this time, this covers:</p> <p>(a) Agreement on institutional framework and relevant parts of the Implementation Strategy for waterfront vision; and</p>	<p>Agreement with the ARC on institutional arrangements and relevant parts of the implementation strategy is reached by date to be agreed.</p>
		(b) Implementation of those institutional arrangements according to a plan and timeframe agreed with the ARC.	Institutional frameworks implemented by date to be agreed.

2006 – 2009 ARH SOI

Objective	Supporting Activity	Performance Measure	Target
	Participating in waterfront processes.	ARH's participation assists ARC to meet its waterfront objectives.	The ARC Chair and CEO are satisfied with the support of ARH in the achievement of its objectives.
	<p>Conveying ARC's waterfront objectives and making trade-offs between objectives.</p> <p>Decisions around strategic assets owned by POAL.</p>	<p>ARH fully appraises the ARC of the commercial and public policy trade-offs from alternative waterfront strategies ARH identifies key strategic waterfront decisions within the ARH Group, and provides options and advice to the ARC to enable the ARC to make those decisions (when appropriate).</p> <p>ARH advises the ARC on a confidential basis of any pending decisions around ownership of strategic assets (as defined by the ARC) owned by POAL, and (where feasible) obtains the ARC's views on those decisions.</p>	<p>ARC is informed of alternative strategies and decisions, and the ARC Chair and CEO are satisfied with the information provided by ARH to support strategic waterfront decisions.</p> <p>All pending decisions on strategic assets are advised, and (where feasible) the views of the ARC are obtained.</p>
	Ensuring that key waterfront assets are made available to achieve the waterfront vision.	ACVL property is made available to facilitate an integrated, comprehensive approach to the entire area, consistent with the Waterfront Vision of:	ACVL property is landbanked and available for a marine precinct.

2006 – 2009 ARH SOI

Objective	Supporting Activity	Performance Measure	Target
		<p>(a) Landbanking of the entire ACVL property until at least 2011 in recognition of existing regional investment in infrastructure and facilities, and to preserve the opportunity to use the property for future America's Cup purposes.</p>	
		<p>(b) Facilitating the interim use of the entire property as a marine events precinct or other appropriate uses.</p> <p>(c) Foreshadowing a longer-term mixed use zoning for the reclaimed land, south of the bridge and East/West axis.</p> <p>ARH will ensure that any significant assets of ACVL will not be sold, transferred or otherwise disposed of without the approval of the ARC.</p>	<p>No significant assets of ACVL sold, transferred or otherwise disposed of without the approval of the ARC.</p>
<p>4. ARH adopts a sustainable development approach.</p>	<p>ARH demonstrating best practice in meeting regulatory requirement placed on it or its subsidiaries.</p>	<p>ARH adopting sustainability reporting and encouraging its subsidiaries to produce sustainability reports.</p>	<p>Sustainability reporting adopted by ARH within its 2006 Annual Report. Sustainability reporting adopted by all its 100% subsidiaries by 30 June 2007</p>

2006 – 2009 ARH SOI

Objective	Supporting Activity	Performance Measure	Target
	<p>Best practice organisational management.</p>	<p>Appropriate staff capabilities and competencies maintained and developed.</p> <p>The 'no surprises' policy is observed by both parties.</p> <p>Branding and communication protocols as agreed by both parties, observed.</p> <p>Quarterly, half yearly and annual reporting meets agreed timetables.</p> <p>Annual report.</p> <p>Comply with all requirements of – The Act SOI LTFP</p>	<p>Organisational development, HR programme and strategy implemented by the Board.</p> <p>The ARC and ARH Chairs are satisfied that appropriate information has been communicated on a timely basis.</p> <p>100% compliance.</p> <p>100% compliance.</p> <p>Unqualified audit opinion obtained.</p> <p>100% compliance. 100% compliance. 100% compliance.</p>

11. Accounting Policies

Accounting Policies

ARH will comply with the accounting and disclosure practices set out in all the relevant Financial Reporting Standards (FRS) issued by the New Zealand Institute of Chartered Accountants as periodically updated and as required by the Financial Reporting Act 1993, and will be in a position to adopt NZ IFRS with effect from the financial year ending 30 June 2007. The current ARH Group Accounting Policies are contained in the most recent ARH Annual Report which is available at www.arh.co.nz.

12. Information to be provided to ARC by ARH

(a) Annual Statement of Intent

ARH will provide the ARC with a draft and final SOI for each financial year in accordance with Schedule 8 of the principal Act.

(b) Long Term Funding Plan

ARH will provide a Draft Long Term Funding Plan by 31 January each year that covers a ten-year period and an LTFP to ARC by 30 June. The LTFP will include:

- Forecasts of funds, required by ARC from ARH;
- Forecasts of funds, both capital and income, that will be available for distribution by ARH to the ARC;
- Forecasts of funds, both capital and income, that ARH intends to reinvest in existing or new activities;
- The proposed source of those funds;
- Estimated cash flow projections for the period of the plan;
- Estimated changes in the net worth of ARH for the period of the plan;
- Such other financial and non-financial information as is necessary for a proper understanding of these forecasts;
- An investment and treasury management policy; and
- A liability management policy.

ARH's long term funding plan will have regard to the ARC's current Long Term Council Community Plan.

(c) Annual Report

Within six weeks from the end of each financial year, ARH will provide to the ARC an executive summary of ARH (parent) performance against the SOI, and the unaudited annual financial statements of the ARH parent. With best endeavours, subject to POAL commercial obligations, ARH will provide to ARC no later than ten weeks after the end of each financial year its audited consolidated financial statements, and by mid September a full Annual Report. This will comply with section 68 of the Act and include the following:

- Directors Report;
- Statement of Financial Performance;
- Statement of Financial Position;
- Statement of Cash Flows;
- Statements of Movements in Equity;
- Notes to the Financial Statements;
- Auditors Report in terms of section 69 of the Act on:
 - The above Financial Statements; and
 - The performance targets and other measures by which ARH was judged in relation to its objectives as per the SOI; and
- Sustainability Report.

(d) Half Yearly Report

Within six weeks after the end of the first six months of each year, ARH will provide to the ARC a report of ARH performance against the SOI, commercial and strategic issues associated with its assets, and the unaudited financial statements of the ARH parent. No later than ten weeks after the end of the first six months of each year, ARH will provide to the ARC an unaudited consolidated Half Yearly Report that includes:

- Statement of Financial Performance;
- Statement of Financial Position;
- Statement of Cash Flows;
- Statements of Movements in Equity; and
- Notes to the Financial Statements.

(e) Quarterly Report

Within five weeks after the end of the September and March quarters of the financial year ARH will provide to the ARC an unaudited quarterly report that includes:

- Statement of Financial Performance;
- Statement of Financial Position;
- Statement of Cash Flows;
- Report on performance against the SOI; and
- Report on all commercial and strategic issues associated with its assets (subject to confidentiality agreements).

(f) Additional Information

ARH will provide additional information to the ARC on a confidential basis as permitted by other agreements so as to ensure that the ARC is informed in a timely manner of significant events which relate to ARH and which may affect the ARC.

(g) Sustainability Reporting

ARH will adopt sustainability reporting in its Annual Report.

13. The procedures to be followed before ARH acquires or disposes of assets

ARH will not make any decision to acquire or dispose of any assets having a value exceeding 5% of the net market value of ARH's tangible assets; without the prior written approval of the ARC.

14. Any activities for which the board seeks compensation from any local authority (whether or not the local authority has agreed to provide the compensation)

There are currently no activities for which the directors seek compensation from any local authority.

15. The board's estimate of the commercial value of the ARH group assets and the manner in which, and the times at which, that value is to be reassessed

The Board's estimated commercial value of ARH as of 31 December 2005 is \$1,194.8 million. This assessment is based on the Accounting Policies and methods of valuation set out in the un-audited interim financial statements for the six months ended 31 December 2005.

16. Any other matters that are agreed by the ARC and the ARH Board

No matters to hand.

17. Disputes Procedure

If ARH or ARC identifies any matters of disagreement both parties will endeavour to discuss and consult on these matters at the earliest opportunity, and seek resolution between themselves.