



Auckland Regional
Holdings

LONG-TERM FUNDING PLAN

**For the period from
1 July 2006 to 30 June 2016**

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Auckland Regional Holdings Long-Term Funding Plan For the period from 1 July 2006 to 30 June 2016

Executive Summary

This Long-Term Funding Plan (LTFP) is required under the Local Government (Auckland) Amendment Act 2004 (the Act) and has been prepared within the terms of the Act. It covers the period from 1 July 2006 to 30 June 2016 and has regard to the Auckland Regional Council's (ARC) Long-Term Council Community Plan 2006-2016 (LTCCP).

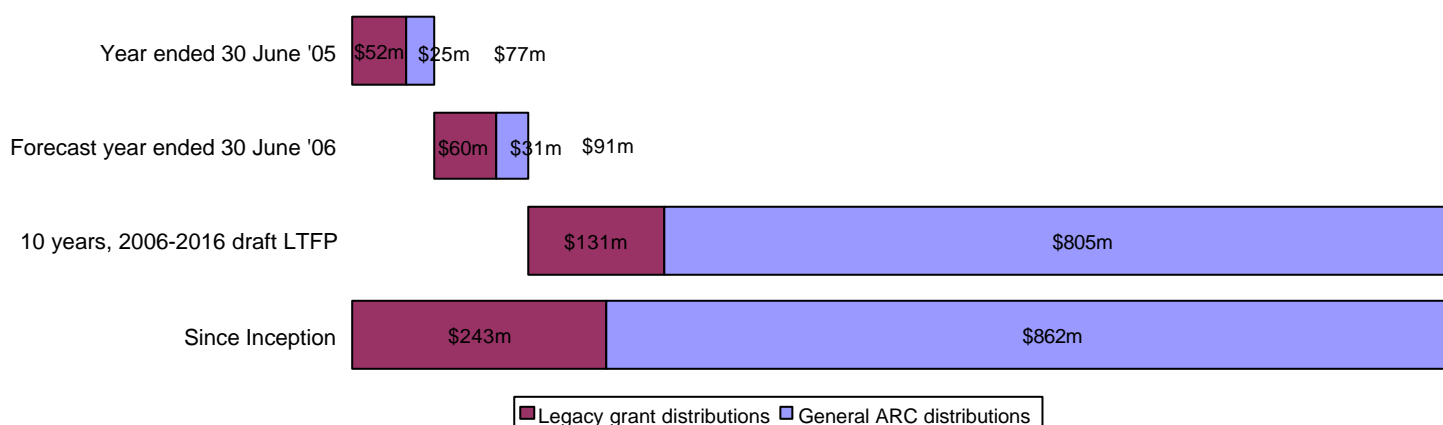
ARH Performance Since Inception

As shown in Table 1 below ARH's investment return in its first year 30 June 2005 was \$166 million¹ (+13%). This return exceeded the risk free rate by 6.7% and the benchmark return on cash investments for the year by 6.0%. The forecast for the year to 30 June 2006 is \$94 million (+6.9%).

Table 1 Performance to Date - Investment Return²

	Year ended 30 June '05		Fcst year ended 30 June '06		Since inception	
	12 months		12 months		2 years	average
Liquid non-equity investments	\$45m	7.2%	\$37m	6.7%	\$82m	7.1%
Other equity investments	\$7m	12.5%	(0)	0.0%	\$6m	5.6%
POAL Equity investment	\$115m	19.2%	\$57m	7.6%	\$172m	12.3%
ARH investment holdings	\$166m	13.0%	\$94m	6.9%	\$260m	9.8%

Figure 1 Performance to Date / Planned - Distributions to ARC



ARH plans to make \$1.1 billion in distributions available to ARC.

¹ Includes \$87m capital appreciation on revaluation of investments in subsidiaries.

² Forecast POAL equity investment return for year to 30 June 2006 includes \$120m special distribution offset by corresponding reduction in POAL value to ARH

Investment Summary

As at the start of the plan, 1 July 2006, the forecast existing investment asset allocations include:

Table 2 Investment allocation start of plan, 1 July 2006.

Investment	\$ million	Share	Asset Allocation Category
POAL (100% subsidiary)	571.1	41.7%	Transport infrastructure utility
" " "	183.6	13.4%	Waterfront property investment
ACVL (100% subsidiary)	49.2	3.6%	Waterfront property investment
NDSL (100% subsidiary)	23.1	1.7%	Cash market investment
Managed cash market portfolio	<u>542.6</u>	<u>39.6%</u>	Cash market investment
Total investments	1,369.5	100.0%	

As a matter of prudence, the current ARH investment strategy is to retain direct equity investments and to have non-equity financial assets invested in cash market investments. ARH has undertaken an investment objectives and risk budgeting exercise which provides the context from which to determine ARH's long-term investment strategy and, subsequently, determine an appropriate asset allocation for its current cash portfolio. The next stage of the process, long-term strategy formulation, is not complete. However, based upon conclusions drawn from the investment objectives and risk budgeting exercise ARH has capacity to improve returns with a diversified portfolio to enable it to meet its investment return objectives. For long-term financial planning purposes the assumption is that ARH will transition from its current cash market investments to a diversified market investment portfolio by 1 January 2007.

Regional Funding Context

It is expected that the level of required capital and operational expenditure on Auckland public transport will increase substantially with time. New increases in Government transport funding are planned to come to an end in 2015.

The funding demand is certainly in excess of the assumed Government contribution and increases in local contributions to future funding are expected by central Government. The 2006-2016 ARC LTCCP has clearly communicated the required expenditure over the next 10 years and funding currently available, and identified a shortfall of \$700m. ARH is not aware of any other planned source of funding for transport that will materially assist in meeting this potential future funding deficit.

ARH therefore believes that it is in the long-term interests of the region for it to provide a sustainable source of funding to the ARC.

Key ARH Policies

Investment Management Policies

ARH investment policy is shaped by ARH's investment and risk objectives, risk policy, and risk budget and will necessarily evolve with changes in circumstances and the underlying economic environment.

General portfolio investment policy;

- I.) ARH will invest and manage its investment assets on a prudent and commercial basis consistent with sound business practice;
- II.) ARH will manage its investment portfolio to maximise ARH's long-term disbursements to ARC;

- III.) Consistent with the above, and as a long-term investor, ARH will maximise return on investment, both in cash return and through capital appreciation, over the longer term;
- IV.) ARH has a 10 to 30 year investment horizon, consistent with long-term investment management, and will therefore necessarily assume short and medium term investment volatility in order to achieve superior investment returns over the long-term.

Primary investment objectives:

- i. To outperform the NZ Government Bond index by 1.5% pa, over ten-year rolling periods;
- ii. To maintain the real revenue earning capabilities of total assets by outperforming inflation, as measured by the Consumer Price Index, by 5.5% pa over 20-year rolling periods;
- iii. For distributions, on a rolling ten-year basis:
 - Short Term, to pay to the ARC 100% of the planned distributions in the first three years of the LTFP, with a 95% probability of achievement,
 - Long Term, to pay to the ARC at least 90% of the planned distributions in years four to ten of the LTFP, with a 75% probability of achievement; and
- iv. To maintain the fund in a satisfactory financial condition, by not exceeding the credit criteria for borrowings used to finance distributions:
 - Interest costs at no more than 40% of total expected earnings;
 - There is the expectation that this will not be breached most (95%) of the time.

Distribution Policies

- I.) ARH will distribute net income and surplus investment capital necessary to assist with short-term urgent transport infrastructure investment needs after meeting its operating expenses and assuring the long-term revenue generating capacity of its investment base.
- II.) ARH will distribute capital to meet all legacy Infrastructure Auckland (IA) grant commitments, predominantly to Territorial Local Authorities (TLAs). These were \$244m as of 30 June 2004 with \$131m of grant commitments forecast remaining as at 30 June 2006.

In line with the policies above, ARH will adopt a conservative approach to managing its assets and the quantum of income or capital available for distribution to the ARC over the short and longer term.

Having regard to the short-term requirement for accelerated expenditure on transport infrastructure and having considered the ARC's LTCCP, ARH has planned distributions of income and capital for the first four years of the plan to meet the distribution requirements in the LTCCP. \$116m will be available for distribution to the ARC in 2006/7, \$936m over the next 10 years.

2006-2016 LTFP Distributions

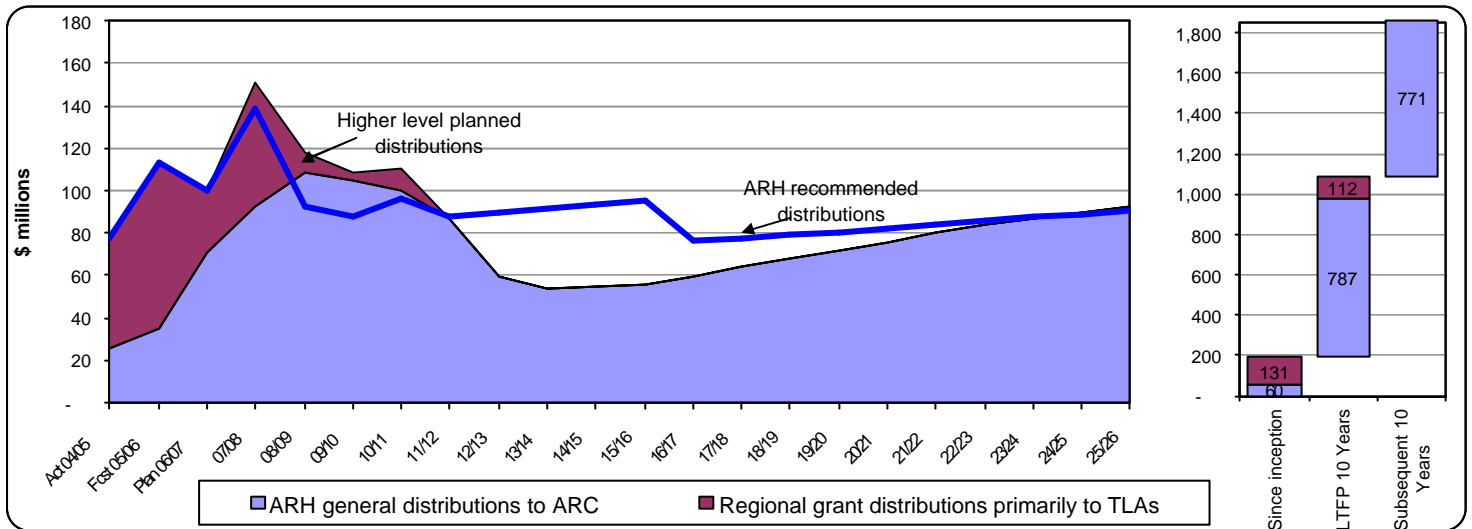
The ARC LTCCP 2006-2016 requires a higher level of ARH distribution than would be ideal for sustained funding over the longer term. To meet this estimated demand ARH plans to borrow against its investments in order to maintain its long-term revenue generating capacity.

Figure 2 shows that as a result of meeting the estimated short term need there will be a reduction in distributions over the longer term.

Table 3 ARH LTFP distributions to ARC assuming LTCCP draw downs

	Fcst 05/06	Plan 06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	10 yrs
ARH 2006-2016 LTFP	91	116	148	127	116	111	93	60	54	55	56	936

Figure 2 ARH 2006-2016 LTFP long-term distributions (20 years) based on LTCCP draw down



ARH's forecast of future distributions is dependent on the underlying assumptions used, the performance of the underlying investments, and is critically dependent upon the expected return being realised in a timely manner.

It is also important to note that investment returns over the short and medium term can be very volatile and that assumptions will therefore be reviewed regularly. As a result the forecasts may change.

Auckland Regional Holdings Long-Term Funding Plan For the period from 1 July 2006 to 30 June 2016

1. Introduction

Auckland Regional Holdings (ARH) has a statutory obligation to present this Long-Term Funding Plan (LTFP) under the Local Government (Auckland) Amendment Act 2004³, hereafter known as the Act.

This LTFP covers the 10-year period from 1 July 2006 to 30 June 2016. It has regard to the Auckland Regional Council's (ARC) Long-Term Council Community Plan 2006-2016 (LTCCP).

Consistent with the current ARH Statement of Intent⁴ a draft LTFP was delivered to ARC by 31 January 2006. The final ARH 2006-2016 LTFP was delivered to ARC by 30 June 2006 and subsequently amended 19 July 2006 to reflect distributions to ARC consistent with the final ARC LTCCP.

ARH must consider any comments on the draft LTFP that are made to it by the ARC within two months of 1 March 2006⁵. The ARC has the right to comment⁶ on, and modify the final LTFP by resolution by including or omitting provisions, after consulting the ARH Board. The ARC must provide its reasons for proposing any modification.

2. Background

a) Legal Context

Part 2 Section 6 of the Act sets out the purpose of the Act.

Part 2 Auckland Region land transport and stormwater:

The purpose of this Part is to-

- a) assign to the Auckland Regional Council principal responsibility for-*
 - a. setting the strategy for the Auckland regional land transport system; and*
 - b. integrating the planning, funding and development of the Auckland regional land transport system; and*
 - c. stormwater funding in the long-term interest of the Auckland Region (to the extent that this function was, before the commencement of this Act, the responsibility of Infrastructure Auckland); and*
- b) establish the Auckland Regional Transport Authority and Auckland Regional Holdings to assist the Auckland Regional Council to discharge that responsibility ;and*

³ Local Government (Auckland) Amendment Act 2004, section 21(3)b

⁴ Governance performance target, page 11, 2005.09.26 final SOI as adopted by council (print copy).doc

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

⁶ Local Government (Auckland) Amendment Act 2004, section 21(3)-(5)

Section 19(1) of the Act sets out two objectives for ARH:

- (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) contributes principles which ARH must observe in performing its functions:

- (a) ARH should collaborate and co-operate with ARC and ARTA to achieve the overall objectives of ARC; and*
- (b) ARH should undertake any commercial activities in accordance with sound business practice; and*
- (c) ARH should ensure prudent stewardship and the efficient and effective use of resources; and*
- (d) ARH should exhibit a sustainable development approach in its decision-making by taking into account—*
 - (i) the social, economic, and cultural well-being of people and communities; and*
 - (ii) the need to maintain and enhance the quality of the environment; and*
 - (iii) the reasonably foreseeable needs of future generations; and*
- (e) ARH should have clear accountability for the way that it contributes to an integrated, safe, responsive, and sustainable land transport system for the Auckland Region; and*
- (f) ARH should be a good employer within the meaning of clause 36 of Schedule 7 of the principal Act; and*
- (g) ARH should operate in a financially responsible manner and, for this purpose, ---*
 - (i) endeavour to maintain its long-term financial viability; and*
 - (ii) prudently manage its assets and liabilities.*

While the functions of ARH, Section 20, are to:

- (a) Own, directly or indirectly, and manage assets (including funds) in the long-term interests of the Auckland Region; and*
- (b) Provide funds to ARC in accordance with ARH's long-term funding plan prepared under section 21; and*
- (c) Make land transport assets available to assist ARTA to achieve ARTA's objectives; and*
- (d) Undertake such other functions as are given to it by this Act or any other Act, or are authorized by its statement if intent.*

ARH was established with the long-term intent to generate income to assist with funding the Auckland Region's significant transport and stormwater expenditure requirements. ARC is the sole direct economic beneficiary of ARH's distributions. Section 34 of the Act notes that at least 85% of ARH's funding to the ARC, whether of income or capital, must be for the purposes of land transport or stormwater in the Auckland Region.

b) Statutory Requirements

An ARH LTFP must -

- (a) *Relate to the 10-year period beginning on 1 July in the year it is delivered to ARC, and*
- (b) *include the following matters⁷:*
 - (i) *Forecasts of funds, required by ARC from ARH; and*
 - (ii) *Forecasts of funds, both capital and income, that will be available for distribution by ARH to the ARC;*
 - (iii) *Forecasts of funds, both capital and income, that ARH intends to reinvest in existing or new activities;*
 - (iv) *The proposed source of those funds;*
 - (v) *Estimated cash flow projections for the period of the plan;*
 - (vi) *Estimated changes in the net worth of ARH for the period of the plan; and*
 - (vii) *Such other financial and non-financial information as is necessary for a proper understanding of these forecasts*
 - (viii) *An investment and treasury management policy; and*
 - (ix) *A liability management policy*

This funding plan covers the 10 year period from 1 July 2006. ARH has extended its financial planning horizon to a rolling 20 year period while, for investment management purposes, it is necessary to use a 20 to 30 year planning horizon.

c) Regional Funding Context

The ARC is responsible for developing the strategy for Auckland's regional land transport system, Auckland Regional Transport Authority (ARTA) for giving effect to that strategy, and ARH to assist with funding of the land transport system⁸. In recognition of these roles ARH is appropriately and necessarily interested in the long-term funding plans for the region's transport.

The recently released Auckland Regional Land Transport Strategy 2005-2015 (RLTS), suggests that there is a funding gap in the region of \$2.9 billion for evaluated known network completion projects. This is despite significantly increased funding for the region, now totalling \$11.0 billion.

Given the projected population growth in the Auckland region, the community expectations for transport system improvements, and the already planned improvements to the transport system, the expenditure and funding requirements are more likely to increase than decrease with time.

⁷ Local Government (Auckland) Amendment Act 2004, section 21(2)b)

⁸ ARH funds delivered to ARC are to be applied predominantly to transport and stormwater in accordance with section 34 of the Act.

When combined the following factors indicate a serious regional funding shortfall in the future:

- The demand for expenditure, both on capital infrastructure and for increased and more costly operating services, is significantly in excess of the currently identified funding supply.
- Substantial capital projects in roading and rail passenger transport, noted as being critical to improving the current network, involve unfunded costs in addition to the RLTS funding deficit noted above.
- New central Government regional funding is only an interim measure and is planned to come to an end in 2015. The ARC's planned level of draw down of funds from ARH investment capital is not sustainable beyond 2010.
- The current ARC LTCCP and latest RLTS already reflect ambitious growth in funding from rates, and particularly from Land Transport New Zealand (LTNZ).
- No other material source of funding for transport has been identified, or comprehensive plans developed, to meet this potential future funding deficit.

d) ARH Establishment Assets

When it was established on 1 July 2004 ARH had a net asset base totalling \$1,019 million. This consisted of \$371 million in treasury investments, excluding that required to meet legacy Infrastructure Auckland (IA) transport and stormwater grant commitments to the TLAs (\$244.3 million), and direct equity investments of \$647 million⁹ being primarily the Ports of Auckland Limited (POAL) investment. Other subsidiaries included America's Cup Village Limited (ACVL) and Northern Disposal Systems Limited (NDSL).

e) ARH Performance Since Inception

Table 4 shows that in the year since its establishment on 1 July 2004 ARH's investment return was \$166 million¹⁰ (13%). This return exceeded the risk free rate by 6.7% and the benchmark return on cash investments for the year by 6.0%. The forecast for the year to 30 June 2006 is \$94 million (6.9%).

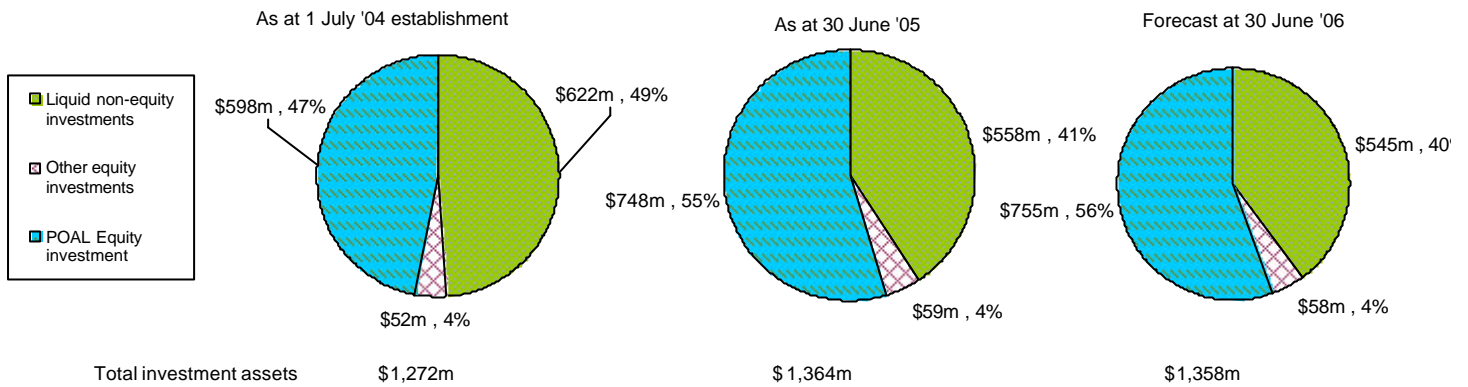
Table 4 Performance to Date - Investment Return

	Year ended 30 June '05		Fcst year ended 30 June '06		Since inception	
	12 months		12 months		2 years	average
Liquid non-equity investments	\$45m	7.2%	\$37m	6.7%	\$82m	7.1%
Other equity investments	\$7m	12.5%	(0)	0.0%	\$6m	5.6%
POAL Equity investment	\$115m	19.2%	\$57m	7.6%	\$172m	12.3%
ARH investment holdings	\$166m	13.0%	\$94m	6.9%	\$260m	9.8%

⁹ Based on a share price on 30 June 2004 of \$7.05 cents per share.

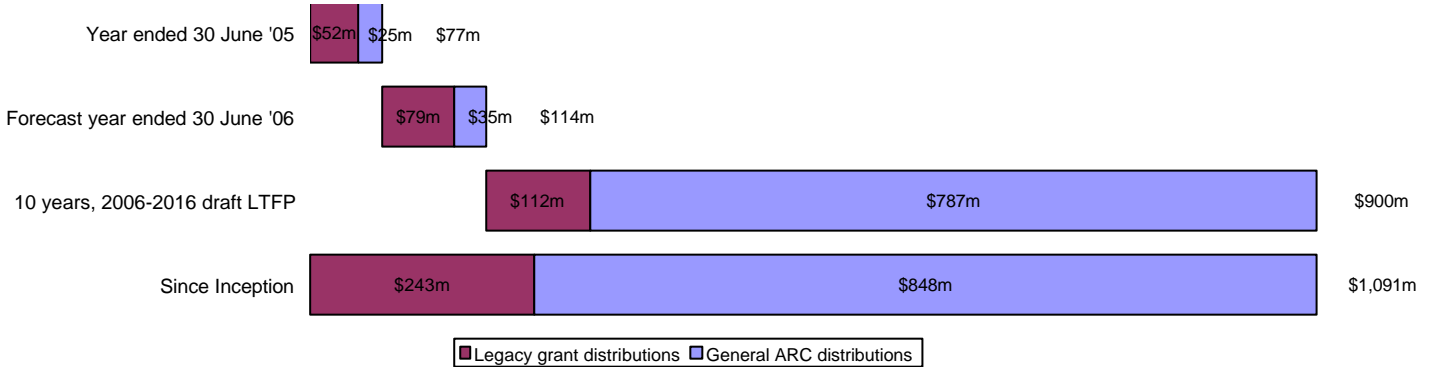
¹⁰ Includes \$87m capital appreciation on revaluation of investments in subsidiaries.

Figure 3 Performance to Date - Investment Assets



Note, investment assets in the year to June 2006 are reduced by forecast distributions to the ARC of \$91 million (year to 2005 \$77 million)

Figure 4 Performance to Date - Distributions Made to the ARC



3. Distribution Policies

a) General Policy

ARH interprets section 19(1) of the Act as meaning that it must manage its business to sustain its revenue generating capacity to the ARC for the long-term. However, ARH recognises the expectation and the need for a significant regional contribution in the short-term, along with further central Government funding, for the accelerated funding of approved transport infrastructure projects. ARH will do its best in collaboration with the ARC to meet the ARC's requirements.

ARH in producing this LTFP has determined that:

- ARH can best play a constructive role within the ARC Group by optimising current investments, the returns from them, and the opportunities created through that investment base;
- It is in the long-term interests of the Auckland region that ARH at least sustain the real revenue generating capacity to provide funding to the region; and
- This ARH policy balances the short-term demand for accelerated investment in transport and stormwater infrastructure with the requirement to act in a sustainable and prudent manner in the longer term interests of the region.

Therefore, ARH's general policy will be to distribute net income and surplus investment capital to meet short-term transport infrastructure funding needs after meeting its

operating expenses and assuring the long-term revenue generating capacity of its investment base.

This policy is consistent with the following key objective in ARH's SOI:

ARH manages its investment portfolio to maximize ARH's long-run disbursements to the ARC, to enable the ARC to meet its regional land transport, stormwater, and other funding responsibilities.

This LTFP contains sufficient flexibility to assist with all reasonable immediate funding requirements of the Group in so far as these are known at this time. It also enables ARH to meet its responsibilities and maximize the return on its investments over the longer term.

This distribution policy will help ensure that:

- i) Each generation is treated equitably over time, with equivalent access for each generation to the income generated from ARH's investment base;
- ii) ARH continues as a funding source for Auckland's substantial infrastructure investment and transport operating needs going forward;
- iii) Auckland will continue to benefit from ARH's unique value creation opportunities;
- iv) Funds will be available in the future to assist with maintaining and replacing Auckland's land transport infrastructure, an obligation that will grow over time; and that
- v) ARH has funds available to respond to appropriate commercial opportunities as they arise.

ARH considers that sustained long-term revenue generation is in the long-term interests of the region, is consistent with prudent asset management, is in accordance with ARH's operating principles, and best enables ARH to fulfil its roles and responsibilities under the Act.

b) Practical Application of the Policy

ARH's distribution policy is general and long-term in nature. The situation may vary from year to year and policy may need to be varied to reflect changes in economic circumstances.

The following points outline how the ARH policy will be applied in practice:

- i) Market prices, independent valuations, and accounting values of ARH's investment assets are likely to vary from year to year. ARH will take a long-term view in assessing expected investment returns, distributions of income and capital that can be made available to ARC, and when income reinvestment may be required to sustain the revenue generating capacity in real terms;
- ii) ARH will reserve sufficient funds to meet the legacy IA transport and stormwater grant commitments (grants liabilities were \$244 million as of 30 June 2004, the time of ARH's establishment. Forecast remaining grant commitments at the start of this plan, 1 July 2006, amount to \$131.3 million);
- iii) To facilitate ARC's planning and budgeting process, ARH will endeavour to have available and distribute 100% of the planned distributions in the current LTFP for the first 12 months of the plan, in accordance with ARH's

- investment objectives, 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) Over the longer term ARH will structure its activities and develop its LTFP with the intention to distribute income and surplus capital as provided for in this plan. The distributions assumed in this LTFP are consistent with the ARC's planned draw-downs in the 2006-2016 LTCCP and are considered by ARH to be consistent with ARH's policies, objectives, and requirements. ARH will take a long-term view of the mechanisms employed to best meet this schedule whilst following the policy described above;
 - v) In the case of iv) above, if it is determined that distributions of capital are necessary to meet urgent short-term ARC funding demands then borrowing may be employed to maintain the revenue generating capacity of the investment base;
 - vi) In the case of iii), iv), and v) above, or any other circumstances where revenue generating capacity is diminished relative to ARH's long-term targets for revenue generation in real terms, the first call on ARH's income in subsequent years will be to replenish the investment base and its expected revenue returns; and
 - vii) 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 distribution commitments in ii) above and in section 3.c) below relating to legacy IA transport and stormwater grants existing at 30 June 2004. Other than for what remains of these commitments, ARH's distributions of income will not be linked to expenditure by ARC or ARTA on particular projects. ARH's distributions are a pool of funds available to the ARC. The ARC determines how these funds are best allocated.

ARH's forecasts of future financial performance and cash distributions are dependent on the underlying assumptions used and the performance of the underlying investments. It is important to note that investment returns over the short and medium term can be volatile and that assumptions will necessarily be reviewed regularly. As a result the forecasts may change. However, ARH's commitment to point iii) above will remain even if assumptions change.

c) ARC Long-Term Council Community Plan (LTCCP)

The ARH LTFP must have regard for the ARC LTCCP¹¹. Specifically;

Section 21 Long-Term Funding Plan

1. *Having regard to ARC's long-term council community plan, ARH must deliver to ARC a draft long-term funding plan on or before 1 March in each year.*

and

3. *ARH must –*
 - a. *consider any comments on the draft long-term funding plan that are made to it by ARC within two months after 1 March; and*
 - b. *deliver the long-term funding plan to ARC on or before 30 June.*

¹¹ in accordance with section 21(1) of the Act.

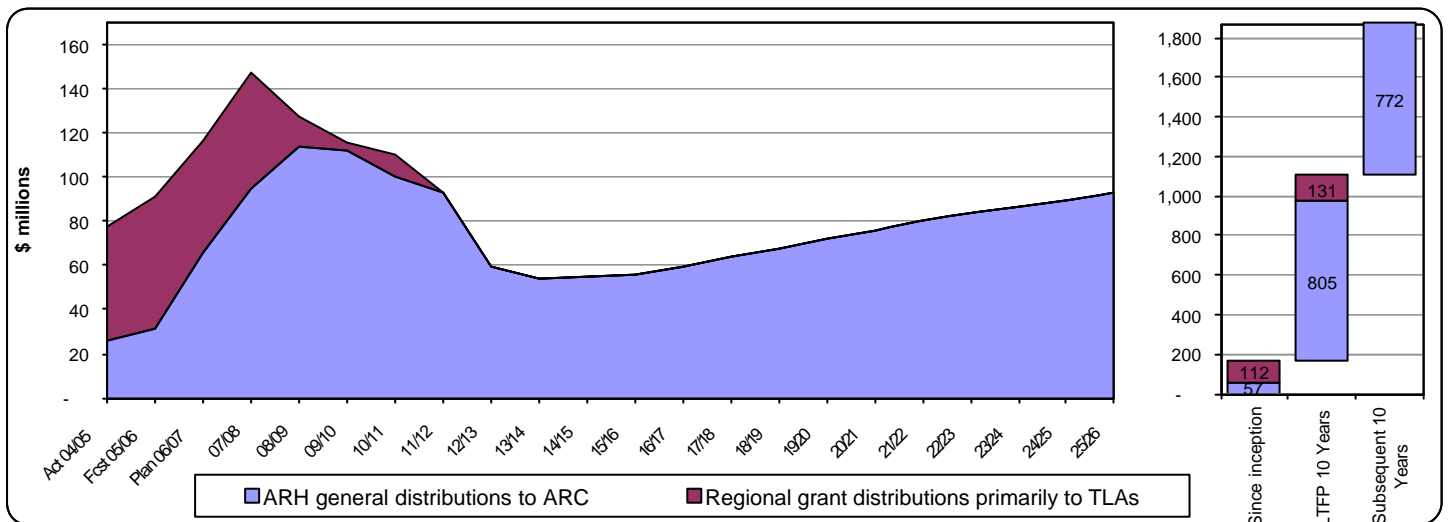
ARH has had regard to the ARC's current operative 2006-2016 LTCCP. As required under the Act, ARH has considered the impact of the LTCCP draw-downs and has concluded, from information provided by ARC, that this level and timing of ARH distributions can be accommodated when considered with other planning information and assumptions contained in this document. The ARH LTFP general distributions are consistent with draw-downs proposed in the ARC's LTCCP¹². For comparison of the planned distributions in this LTFP with the 2005-2015 LTFP please refer Table 5.

Table 5 Comparison of distributions in the 2006-2016 LTFP to the 2005-2015 LTFP

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	10 yrs
ARH 2005-2015 LTFP	153	160	126	95	68	72	54	51	45	35	859
ARH 2006-2016 LTFP	116	148	127	116	111	93	60	54	55	56	936
difference	(36)	(12)	1	21	43	21	5	3	10	21	77

Figure 5 details the distributions as reflected in this LTFP and also the current forecast distribution profile for IA legacy grant commitments.

Figure 5 ARH distributions to ARC¹³



* Assumes distributions from 2015/16 of available cash and in accordance with maintaining revenue generating capacity of investments

ARH notes that this quantum and timing of distributions, over the short-term, are in excess of what would be recommended for sustained revenue generation over the long-term. ARH will consider borrowing against its investments to meet the additional distributions and also cover the consequential reduction in earnings. ARH will consult with the ARC before implementing such borrowing policy and will indicate the consequences of borrowing for the purposes of funding distributions.

¹² ARH distributions made for the purposes of meeting legacy IA grant commitments, under the accountability of the ARC, have been updated to reflect the latest advice available. Because of differing document release dates of the ARH LTFP and the ARC LTCCP these schedules may not be consistent.

¹³ Distributions to ARC are consistent with those assumed in the ARC final 2006-2016 LTCCP.

d) Implications of Planned Distributions vs Recommended Distributions

Recommended distributions to the ARC would provide for sustained revenue generation over the long-term. This would enable ARH to maximize its investment return within defined risk parameters and, in practical terms, enables ARH to plan distributions after having met its operating expenses and having assured its long-term regional revenue generating capacity from its investment base.

Under normal circumstances ARH would take a conservative approach to managing its assets and the quantum of income or capital distributions available to the ARC over the short and longer term. ARH recognises the ARC's short-term requirement for accelerated expenditure on transport infrastructure in place of recommended sustained funding, and has planned LTFP distributions accordingly.

For ARH to provide a reasonable degree of certainty with respect to ARH's ability to deliver high short-term distributions a more constrained investment risk exposure plan is required, with a commensurate reduction in long-term expected return, than would be the case given a more even level of distributions over time.

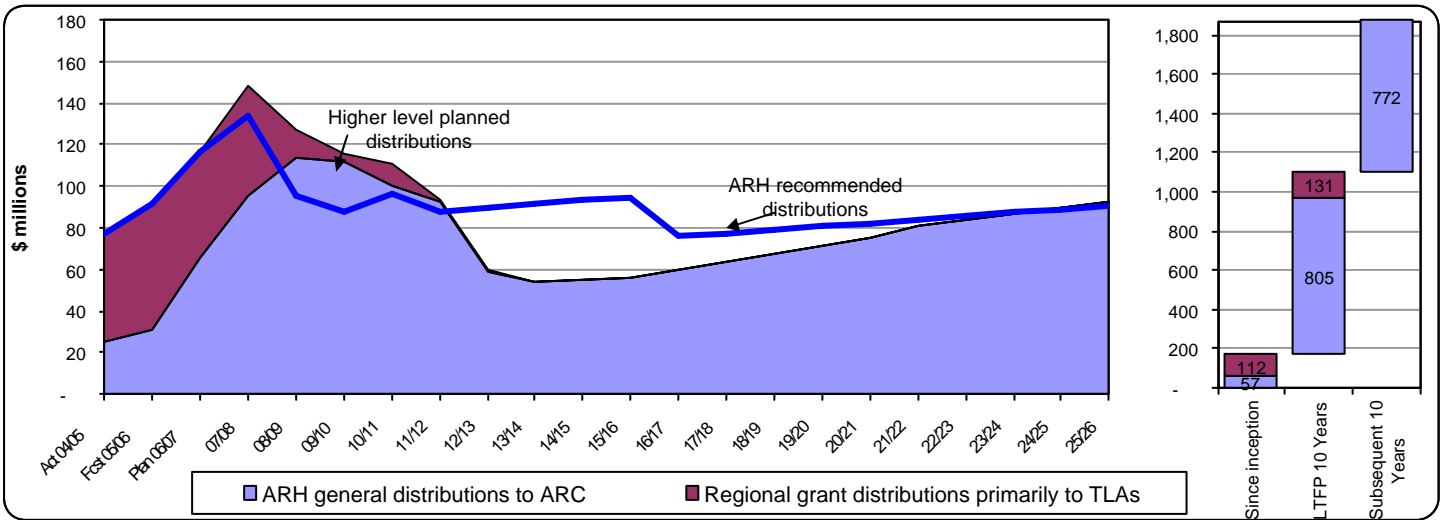
Inclusive of legacy IA grant commitments this LTFP indicates a funding supply to the ARC over the next 10 years of \$936m.

Table 6 and show a more sustainable profile of distributions. The LTFP planned distributions are \$51m more in the first five years of the plan than recommended under ARH's distribution policy described above. The recommended distribution profile would provide for an additional \$144m in available distributions in the later half of the plan.

Table 6 ARH distributions to ARC

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	10 yrs
ARH 2006-2016 LTFP	116	148	127	116	111	93	60	54	55	56	936
Recommended distributions	116	133	96	88	96	88	90	91	93	95	987
difference	-	14	31	28	15	5	(30)	(37)	(38)	(39)	(51)

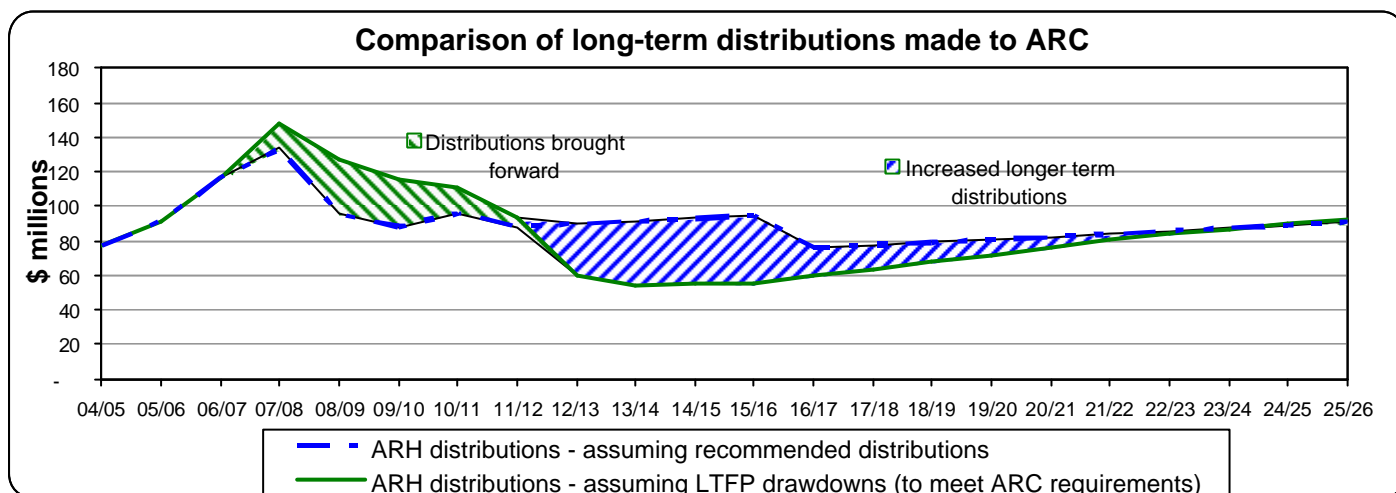
Figure 6 Planned long-term ARH distributions relative to recommended distributions



The level of recommended distributions over the short-term would:

- Increase distributions to the region by \$51m in the 10 years to 2016.
- Enhance the likelihood of delivering the indicated returns from the ARH investment portfolio.
- Enhance investment flexibility and opportunities to earn efficient high returns in the future.
- Enable ARH to maintain its investment base at levels that allow sustained revenue and disbursements for the region.

The effect of following the recommended sustained draw down schedule is to increase funding availability over the medium to long term as shown below.



4. Investment Management Policies

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

- The need to maintain sufficient liquidity to meet ARH's distribution commitments with 100% confidence in the first 12 months of the LTFP;
- ARH's responsibility to maximise total returns (both cash yield and capital appreciation), within prudent risk limits, for the long-term benefit of the Auckland region;
- The general policy of at least maintaining the real revenue generating capacity of the investment base for the long-term;
- The objective for ARH to manage its investment portfolio to maximize ARH's long-run disbursements to the ARC; and
- The large proportion that the POAL investment represents of ARH's total investment portfolio.

a) General Portfolio Investment Policy

- ARH will invest and manage its investment assets on a prudent and commercial basis consistent with sound business practice as applicable;
- ARH will manage its investment portfolio to maximise ARH's long-term disbursements to ARC;
- Consistent with the above, and as a long-term investor, ARH will maximise return on investment, both in cash return and through capital appreciation, over the longer term;

- IV.) ARH has a 10 to 30 year investment horizon, consistent with long-term investment management. It will accept short and medium term investment volatility in order to achieve superior investment returns over the long-term.

b) General Portfolio Investment Objectives and Budget

Consistent with best practice investment management ARH has undertaken an investment objectives and risk budgeting exercise which provides the context from which to determine ARH's long-term investment strategy and, subsequently, determine an appropriate asset allocation for its current cash portfolio. The next stage of the process, long-term strategy formulation and subsequent asset allocation, is not complete at the time of this plan being released.

Primary investment objectives:

- I.) To outperform the NZ Government Bond index by 1.5% pa, over ten-year rolling periods;
- II.) To maintain the real revenue earning capabilities of total assets by outperforming inflation, as measured by the Consumer Price Index, by 5.5% pa over 20-year rolling periods;
- III.) For distributions, on a rolling ten-year basis:
 - Short Term, to pay to the ARC 100% of the planned distributions in the first three years of the LTFP, with a 95% probability of achievement,
 - Long Term, to pay to the ARC at least 90% of the planned distributions in years four to ten of the LTFP, with a 75% probability of achievement; and
- IV.) To maintain the fund in a satisfactory financial condition, by not exceeding the credit criteria for borrowings used to finance distributions:
 - Interest costs at no more than 40% of total expected earnings;
 - There is the expectation that this will not be breached most (95%) of the time.

c) Direct Equity Portfolio Investment Policy

- I.) Given ARH's planned distribution profile, any prospective material direct equity investment must have stable cash yield expectations complemented with opportunities for substantial capital appreciation over the longer term.

d) Non Equity Portfolio Investment Policy

ARH's non-equity investment portfolio holdings are currently invested in cash market investments. This interim investment strategy provides certainty in ARH's ability to provide funding to the ARC in accordance with this LTFP in the short-term through safe, low risk, and liquid investments. Longer term however cash investments cannot provide the returns needed to fulfil this LTFP

Current policy:

- I.) To minimise the impact of market fluctuations and exposure to capital losses until the ARC's demand on funds and definition of ARH's investment objectives and risk budget have been finalised

- II.) To be 100% in cash market investments until the current favourable cash market environment changes at which time the Board will consider the merits of a transition to a diversified investment portfolio or other investment policy; and
- III.) To regularly review and consider market conditions, and also advice from ARH's investment advisors, with a view to transition from the interim strategy and policy.

Future expectations:

ARH will adhere to its stated investment objectives and risk budget, to achieve improvement in expected long-term investment performance.

The plan assumes that ARH will transition to a diversified investment portfolio from 1 January 2007.

The absolute return assumption on the portfolio (7.8% net return after investment management fees) is the long-term expected return from a typical diversified passive investment portfolio consistent with meeting ARH's investment and risk objectives¹⁴. This is an interim proxy and a long-term expected return, i.e. over a period of 10 to 30 years. ARH places no emphasis on the expected rate of return on the portfolio over a period as short as one, or even three years, but over a 10 year funding plan it is an appropriate proxy for overall expected return for the full period of the plan.

5. Treasury Management Policies

ARH's treasury policy includes the following:

- i) Delegated account and signing authorities are maintained as appropriate under the responsibility and overview of the ARH Board and Assurance and Risk Committee;
- ii) Working capital funds not held in the investment portfolios will be managed in accordance with sound business practice;
- iii) Regular projected cash flow schedules will be prepared so that surplus funds can be identified and transferred to the portfolios, following dividend or significant capital funds receipts;
- iv) Sufficient funds will be held in ARH's nominated Bank Call Account to cover ARH's short-term projected office expenditure payments and distributions to the ARC; and
- v) Funds not required to meet short-term cash flow will be transferred to the investment portfolios for investment.

6. Liability Management Policy

ARH currently has no bank debt or other interest bearing financial liabilities to third parties. The material liabilities entered into by ARH are the reserves held to meet legacy IA transport and stormwater grant commitments and the one year distribution commitments made in the LTFP.

¹⁴ Mercer Investment Consulting estimate (8 May 2006) of the likely achievable average return over the period of the LTFP from a passive management diversified investment portfolio with an indicative construction delivering market risk / return set to achieve ARH's investment objectives and risk budget.

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.

As previously stated in ARH's distribution policy, 3.b)v), where distributions are in excess of what would be recommended for sustained revenue generation over the long-term ARH will borrow against its investments to meet the additional distributions and also cover the consequential reduction in earnings. This LTFP assumes that borrowing is employed for this purpose with borrowing required to maintain real revenue generating capacity from the third year of the plan on.

7. Key Planning Assumptions

Table 7 shows the forecast significant asset allocations existing at 1 July 2006:

Table 7 Investment allocation start of plan, 1 July 2006.

Investment	\$ million	Share	Asset Allocation Category
POAL (100% subsidiary)	571.1	41.7%	Transport infrastructure utility
" " "	183.6	13.4%	Waterfront property investment
ACVL (100% subsidiary)	49.2	3.6%	Waterfront property investment
NDSL (100% subsidiary)	23.1	1.7%	Cash market investment
Managed cash market portfolio	<u>542.6</u>	<u>39.6%</u>	Cash market investment
Total investments	1,369.5	100.0%	

Investment Yield

- The total return (cash dividends and capital appreciation) on POAL shares currently owned is assumed to be approximately 8% p.a. throughout the plan period¹⁵. Independent POAL valuations will be undertaken every year to determine capital return on POAL investment.
- POAL dividend payments received by ARH are premised on:
 - a POAL earnings before interest and tax (EBIT) growth assumption of 6%. An earnings growth target considered appropriate by ARH and indicated as achievable by POAL, and
 - a current POAL ordinary dividend payout policy to pay 75% of after-tax profits paid in two instalments at the half year and full year end.
- ACVL dividend return assumptions of 1% per annum on land asset value for two years, until a decision is made on hosting the 2011 America's Cup, and a dividend return assumption of 6% per annum from 1 July 2008.
- ACVL capital appreciation assumption of 2.5% annually, from 2012, following potential rezoning and mixed use development on Halsey Street Reclamation.

¹⁵ Calculated upon the Independent valuation of the POAL investment as at 31 December 2005, of \$748.5m. This equates to the 30 June 2005 valuation of \$8.00 per share (equivalent to takeover cost) after having adjusted for the \$120 million special distribution received from POAL in December 2005 plus a further uplift in value of \$20m.

- The forecast pre-tax nominal return from ARH non equity financial assets for the current financial year ending 30 June 2006 is approximately 7.4%. This return is derived from the current investment strategy to have non equity financial assets invested in cash market investments and is forecast to continue until 31 December 2006.
- In the interim, as a proxy for financial planning purposes, the plan assumes that ARH will transition its current cash market investments to a diversified investment portfolio from 31 December 2006.
- The expected gross return on the proxy diversified investment portfolio over the 10 years from 1 July 2006 on is 8.3% p.a.¹⁶. The split between cash and capital returns will be dependent on a range of market factors and the specific operative investment strategy.

Expenses

- ARH considers that strong value management of the investment portfolio and strong risk management is a minimum statutory requirement. A 2006/07 administration budget similar to that approved in 2005-2006 of \$2.1m, excluding investment management costs, is assumed. This equates to 0.16% of the total ARH investment portfolio, which is less than the ARH Board adopted benchmark target that administration costs not exceed 0.25% per annum.
- For the remainder of the 10 year period of the LTFFP the administration costs are assumed to increase at the rate of inflation.
- Direct investment fund management fees are a factor of investment strategy and could range from seven to fifty basis points. If the ARH asset base increases in size and/or complexity, fund management fees could increase in real terms to reflect this. The forecast investment management costs for 2006-2016 for a managed diversified portfolio is 0.5% of funds under management.
- Investment management costs are a direct cost in the delivery of forecast financial return or the cost incurred to increase financial return. In this regard they are contingent upon investment strategy and particular investment activity. An estimate of activity cost and management fees for the 2006/07 year is \$2.9m.

Inflation

- The forecasts in this LTFFP are presented in nominal 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 mid to long-term assumption of 2% is consistent with NZ Government Treasury long-term financial modelling, is consistent with the assumption used by Mercer Investment Consulting in their financial return assumptions and detailed modelling, and has been determined as appropriate for long-term investment return scenario modelling.

Distribution Commitments

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

- The ARC stormwater liabilities and ARTA transport liabilities that arise from the former IA grant commitments. The commitments amounted to \$244.3 million at

¹⁶ Mercer Investment Consulting estimate (8 May 2006) of the likely achievable average return over the period of the LTFFP from an passive management diversified investment portfolio with an indicative construction delivering market risk / return set to achieve ARH's investment objectives and risk budget.

the establishment of ARH. The remaining distribution commitment as at 31 December 2005 was \$155.6 million. At the start of the plan, 1 July 2006, the remaining grant commitments are forecast to amount to \$131.3 million

- A general income distribution of up to \$65.9 million in the year to 30 June 2007, if called by the ARC. This sum is consistent with the ARC LTCCP.

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.

8. Summary ARH Financial Forecasts

ARH, at its 1 July 2004 establishment, had an asset base consisting of \$371 million in treasury investments, excluding that required to meet legacy IA transport and stormwater grant commitments to the TLAs, and direct equity investments of \$647 million¹⁷ being primarily the Ports of Auckland Limited (POAL) investment. Total establishment assets equaled \$1.018 billion.

As at 31 December 2005 the ARH Statement of Financial Position reflected net assets totaling \$1.175 billion consisting of direct equity investments of \$807 million¹⁸ being primarily the POAL investment and \$394 million in cash market investments, excluding the \$156 million required to meet legacy IA transport and stormwater grant commitments to the TLAs. The 31 December 2005 reported Statement of Financial Position forms the base from which the forecast financial statements in this plan are based.

Table 8 below summarises ARH's 10 year forecasts based on the assumptions outlined in Section 7 above and in Appendix B. The forecasts are shown in greater detail in the ARH entity financials statements provided in Appendix A.

Table 8 shows:

- ARH's forecasts of sources and level of income and expenses;
- Distributions to the ARC, comprising existing ARH funding commitments and other future available distributions; and
- The value of the investment base over time.

¹⁷ Based on a share price on 30 June 2004 of \$7.05 cents per share.

¹⁸ Based on a share price on 30 June 2005 of \$8.00 cents per share amended for Dec 2005 POAL special distribution and the independent valuation indicating a further increase in the investments value of \$20m.

Table 8 Summary of ARH Financial Forecasts

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	Total
	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan Yr	Plan
ARH Investment Yield											
POAL Dividends	22	26	29	32	36	39	43	47	51	56	383
Diversified Fund Total Yield	39	34	32	31	28	25	24	26	28	31	299
POAL Equity Capital Appreciation	30	32	33	34	35	36	38	39	41	42	361
Total Gross Yield	91	92	94	97	99	101	105	112	120	129	1,042
Admin & Investment Management Costs	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(52)
Funding Cost	-	-	(3)	(6)	(8)	(9)	(9)	(11)	(12)	(14)	(71)
Net ARH Yield	86	87	86	87	86	87	91	96	103	110	919
Distributions											
Regional Transport & Stormwater Grants ⁽¹⁾	(50)	(53)	(13)	(4)	(10)	(0)	(1)	-	-	-	(131)
General ARC Distributions	(66)	(95)	(114)	(112)	(100)	(93)	(59)	(54)	(55)	(56)	(805)
Total Distributions	(116)	(148)	(127)	(116)	(111)	(93)	(60)	(54)	(55)	(56)	(936)
Value of Investment Base											
Direct Equity Investments	843	875	909	942	978	1,014	1,052	1,092	1,134	1,177	
Non-direct Equity Investment ⁽²⁾	396	357	377	359	319	291	304	330	364	407	
Less Borrowing	-	-	(79)	(117)	(124)	(136)	(152)	(172)	(196)	(224)	
Total Net Investment Capital	1,239	1,232	1,207	1,184	1,172	1,170	1,204	1,250	1,302	1,361	

*1 A total of \$244 million of ARH's liquid funds were "reserved" to meet the regional transport and stormwater grant commitments existing at 1 July 2004. Grant commitments remaining 31 December 2005 \$148.4 million.

*2 Non-direct equity investments excludes that reserve required to match regional transport and stormwater grant commitments and advances payable.

The forecasts show:

- ARH distributions made, and planned, since inception totalling \$1,105 million. Distributions over the 10 year period of this LTFP of \$936 million;
- An ARH portfolio gross yield of over \$129 million in nominal terms in the year 2016, with the potential to generate this every year thereafter;
- The revenue generating capacity being maintained in real terms over the long-term.

9. Ratio of Consolidated Funds

The ARH SOI requires that ARH sets a ratio of consolidated ARH equity to total assets when determining its investment and borrowing policies for its LTFP. ARH will ensure the ratio of ARH equity¹⁹ to the total assets²⁰ is greater than 50% at all times, consistent with a prudent view of the management of regional assets.

¹⁹ Consolidated equity means the sum of the amount of opening balance vested equity, retained earnings, accumulated losses, revenue and capital reserves of ARH.

²⁰ Total 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 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.

10. Key Risks

ARH is exposed to a number of key risk areas:

- a.) Investment risk economic risk, market risk, investment management risk, third party advice risk, and risk attributable to fraud, misconduct, or negligence.

Investment risk is a key area in dictating the likelihood of ARH's success in carrying out its functions and achieving its defined investment objectives.

- b.) Unplanned increases in draw down risk
Risks of unplanned acceleration in draw down requirements or of volatility in expenditure funding estimates result in increased investment risk profile and sub-optimal investment allocation and/or returns.
- c.) Organisational risk availability and continued efficiency of human resources, technology systems and hardware, operational infrastructure, and premise risk.
- d.) Governance risk political reputation or interference risk, compliance risk with legislative and other governance arrangements, internal controls risk, and with respect to adequate control of confidential information.

The financial risk to the forecasts in this plan being achieved relate primarily to the risk in achieving the expected capital appreciation and cash return assumptions over any one year and over the cumulative period of the plan.

The key investment risk assessment conclusions relevant to the LTFFP are²¹:

Current investment portfolio

- ARH's current POAL and cash market investments portfolio (being a simplified current asset allocation assumption) has a standard deviation of investment return of approximately 7.9% per annum.

Indicative investment portfolio

- The probability of achieving or exceeding ARH's primary objective i.), NZ Bond index (5.9%pa) plus 1.5% over rolling ten year periods, is approximately 80.9%.
- The probability of achieving or exceeding ARH's primary objective ii.), consumer price index (2.5%pa) plus 5.5% over rolling 20 year periods, is approximately 85.9%.
- Based upon a theoretical portfolio construction designed to achieve ARH's primary investment objectives i.) & ii.) the standard deviation of investment return would be between 8.25% and 8.75% per annum.

²¹ Mercer Investment Consulting estimate (13 April 2006).

Probability of achieving planned distributions

- 95% probability of achieving 100% of the planned distributions per the first three years of the LTFP.
- 75% probability of achieving 90% of the planned distributions per years four to ten of the LTFP.

More detail on the risk reward trade offs and a comparison of the current risk profile to planned portfolio risk profile can be found in Appendix C

11. Investment Activity Intentions

ARH, as an investment manager, will always investigate and seek to take advantage of investment opportunities as and when they become available, as long as they are consistent with ARH's statutory mandate, investment and risk policies, and will assist the organisation in achieving its objectives. Investigation of investment opportunities is an ongoing core activity for ARH.

Investment intentions will be reflected in the ARH LTFP from the point that there is a reasonable degree of certainty that the investment activity will be executed and the financial implications understood. ARH holds the view that maintaining the non-equity investment portfolio in cash market investments will not meet long-term investment performance objectives²². ARH's plan is to transition into a more diversified market investment portfolio in the near future.

As a proxy for financial planning purposes, the plan assumes that ARH will transition to a more diversified investment portfolio from 1 January 2007. For planning purposes this proxy diversified investment portfolio would consist of (50%) of higher risk/return growth assets and 50% of lower risk/return income type assets.

12. Investment Activity Milestones

Core investment activity history

- ARH, at its 1 July 2004 establishment, had a net asset base totalling \$1,019 million, consisting of \$371 million in treasury investments, excluding that required to meet legacy IA transport and stormwater grant commitments to the TLAs (\$244.3 million), and direct equity investments of \$647 million being primarily the POAL investment.
- On 1 April 2005, ARH made an offer at \$8 per share for the remaining listed shares in Ports of Auckland Limited. Purchase of the 20% minority interests in POAL was concluded on 5 August 2005. The acquisition cost of \$169.6 million was funded through draw-down on cash market security investments (at 1 April 2005 cash market investment amounted to \$634.3 million).
- 30 June 2005 ARH investment in POAL was revalued to \$8 per share (\$7.05 per share on ARH establishment 1 July 2004) resulting in an investment gain of \$80.6 million.

²² Long-term investment return expectations from cash investments is 4.8% per annum (Mercer Investment Consulting 'Modelling Assumptions', March 2006), while long-term investment objectives are to exceed NZ Government bond index by 1.5% or CPI by 5.5%.

- 22 December 2005, a capital restructuring of POAL in December 2005 resulted in a special dividend being paid to ARH. The special dividend of \$120 million has been invested in existing managed cash market investments as a retrospective partial funding for the acquisition of the remaining 20% minority interests in POAL. Cash market investments 31 December 2005 following receipt of \$120 million special dividend amounted to \$550 million.

Appendix A

Appendix A – ARH Financial Statements

Statement of Forecast Financial Performance (Year ending 30 June)

Auckland Regional Holdings (parent)

(\$000's)

	05/06 Fcst Yr	06/07 Plan Yr One	07/08 Plan Yr	08/09 Plan Yr	09/10 Plan Yr	10/11 Plan Yr	11/12 Plan Yr	12/13 Plan Yr	13/14 Plan Yr	14/15 Plan Yr	15/16 Plan Yr	Total 10 Years
Revenues												
POAL Dividends - Ordinary	31,802	21,727	26,325	29,099	32,471	35,823	39,394	43,167	47,167	51,416	55,930	382,519
POAL Dividends - Special	120,000	-	-	-	-	-	-	-	-	-	-	-
ACVL Dividends	-	475	475	2,851	2,851	2,851	2,851	2,851	2,851	2,922	2,995	23,973
Diversified Fund Total Yield	38,084	39,103	34,033	31,593	30,975	28,080	24,962	24,324	25,843	28,254	31,352	298,519
Total Revenue	189,886	61,305	60,833	63,543	66,298	66,754	67,206	70,342	75,862	82,592	90,277	705,011
Investment Management Costs	(1,049)	(2,910)	(3,014)	(2,894)	(2,808)	(2,569)	(2,442)	(2,519)	(2,669)	(2,861)	(3,099)	(27,786)
Gross Margin	188,837	58,395	57,820	60,649	63,489	64,185	64,764	67,822	73,193	79,731	87,178	677,225
Overheads												
Administration, depreciation, Amortisation	(1,757)	(2,253)	(2,297)	(2,275)	(2,322)	(2,369)	(2,417)	(2,465)	(2,515)	(2,565)	(2,616)	(24,093)
Interest Costs	-	-	-	(2,664)	(5,537)	(8,202)	(8,690)	(9,496)	(10,610)	(12,019)	(13,711)	(70,930)
Total Overheads	(1,757)	(2,253)	(2,297)	(4,939)	(7,859)	(10,572)	(11,107)	(11,962)	(13,124)	(14,584)	(16,327)	(95,023)
Net Surplus before Taxation	187,080	56,141	55,523	55,709	55,631	53,614	53,657	55,860	60,068	65,147	70,851	582,202
Taxation	-	-	-	-	-	-	-	-	-	-	-	-
Net Surplus	187,080	56,141	55,523	55,709	55,631	53,614	53,657	55,860	60,068	65,147	70,851	582,202
Legacy Grant Distributions	99	-	-	-	-	-	-	-	-	-	-	-
General ARC Distributions	(31,417)	(65,888)	(94,954)	(114,107)	(112,244)	(100,499)	(92,851)	(59,283)	(54,160)	(55,035)	(55,673)	(804,694)
Net Surplus after Distributions	155,762	(9,747)	(39,431)	(58,398)	(56,613)	(46,885)	(39,194)	(3,423)	5,908	10,112	15,178	(222,492)
POAL Share Equity Appreciation	(94,500)	30,063	32,121	33,284	33,933	35,157	36,437	37,774	39,170	40,630	42,156	360,725
Other Subsidiary Capital Appreciation	(253)	-	-	-	-	-	-	-	1,188	1,218	1,248	3,653
Net Change in Accumulated Funds & Reserves	61,009	20,316	(7,310)	(25,113)	(22,681)	(11,728)	(2,757)	34,351	46,266	51,960	58,581	141,886

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Appendix A

Statement of Forecast Financial Position (as at 30 June)

Auckland Regional Holdings (parent)

(\$000's)

	05/06 Fcst Yr	06/07 Plan Yr One	07/08 Plan Yr	08/09 Plan Yr	09/10 Plan Yr	10/11 Plan Yr	11/12 Plan Yr	12/13 Plan Yr	13/14 Plan Yr	14/15 Plan Yr	15/16 Plan Yr
Assets											
<i>Current Assets</i>											
Cash	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Diversified Portfolio - current portion	116,370	147,827	50,827	83,488	111,906	90,365	53,396	44,640	42,875	41,344	80,344
ACVL Loan Asset	13,809	13,809	13,809	13,809	13,809	13,809	13,809	13,809	13,809	13,809	13,809
Receivables & Prepayments	20	20	20	20	20	20	20	20	20	20	20
Total Current Assets	132,199	163,656	66,656	99,317	127,735	106,194	69,225	60,469	58,704	57,174	96,174
<i>Non Current Assets</i>											
Furniture, Fittings & Equipment	162	96	35	39	42	44	46	47	47	48	48
Diversified Portfolio - non-current portion	426,271	334,650	339,408	314,290	263,548	234,998	243,948	264,664	292,467	328,288	332,506
Investments in Subsidiaries											
ACVL	35,341	35,341	35,341	35,341	35,341	35,341	35,341	35,341	36,529	37,746	38,994
NDSL	23,051	23,051	23,051	23,051	23,051	23,051	23,051	23,051	23,051	23,051	23,051
POAL	754,702	784,764	816,886	850,170	884,103	919,260	955,697	993,471	1,032,641	1,073,271	1,115,426
Total Non-Current Assets	1,239,526	1,177,903	1,214,721	1,222,891	1,206,085	1,212,694	1,258,083	1,316,573	1,384,735	1,462,404	1,510,025
Total Assets	1,371,725	1,341,559	1,281,376	1,322,208	1,333,820	1,318,888	1,327,307	1,377,042	1,443,439	1,519,578	1,606,199
Liabilities											
<i>Current Liabilities</i>											
ACVL - Advance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
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	380	380	380	380	380	380	380	380	380	380	380
Legacy Grant Commitments	50,482	52,873	13,153	3,787	10,174	337	521	-	-	-	-
Total Current Liabilities	71,998	74,390	34,670	25,304	31,691	21,854	22,037	21,517	21,517	21,517	21,517
<i>Non Current Liabilities</i>											
Borrowing	-	-	-	79,098	117,178	124,148	135,663	151,567	171,697	195,876	223,916
ARC Grant Commitments	80,846	27,973	14,820	11,033	858	521	(0)	(0)	(0)	(0)	(0)
Total Non Current Liabilities	80,846	27,973	14,820	90,130	118,036	124,669	135,663	151,567	171,697	195,876	223,916
Total Liabilities	152,844	102,363	49,489	115,434	149,727	146,523	157,700	173,084	193,214	217,393	245,433
Total Net Assets	1,218,881	1,239,197	1,231,887	1,206,774	1,184,093	1,172,365	1,169,608	1,203,959	1,250,225	1,302,185	1,360,766
Total Accumulated Funds & Reserves	1,218,880	1,239,197	1,231,887	1,206,773	1,184,093	1,172,365	1,169,608	1,203,959	1,250,225	1,302,185	1,360,766
NOTES:											
Total Diversified Investment Portfolio (DIP)	542,640	482,478	390,235	397,777	375,454	325,362	297,344	309,304	335,341	369,633	412,850
Growth in Nominal Capital Base - Forecast & Actual	119.67%	121.67%	120.95%	118.48%	116.26%	115.11%	114.83%	118.21%	122.75%	127.85%	133.60%
Growth in Nominal Capital Base - Target	106.00%	108.92%	111.71%	113.94%	116.22%	118.55%	120.92%	123.33%	125.80%	128.32%	130.88%
Total Equity / Total Assets ratio	92.5%	96.3%	97.2%	91.6%	89.5%	88.9%	88.2%	87.4%	86.6%	85.7%	84.7%

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Appendix A

Statement of Forecast Cashflows (Year ending 30 June)

Auckland Regional Holdings (parent)

(\$000's)

	05/06 Fcst Yr	06/07 Plan Yr One	07/08 Plan Yr	08/09 Plan Yr	09/10 Plan Yr	10/11 Plan Yr	11/12 Plan Yr	12/13 Plan Yr	13/14 Plan Yr	14/15 Plan Yr	15/16 Plan Yr	Total 10 Years
Cashflow from Operating Activities												
<i>Operating Income & Expenses</i>												
POAL Dividends - Ordinary	31,802	21,727	26,325	29,099	32,471	35,823	39,394	43,167	47,167	51,416	55,930	382,519
POAL Dividends - Special	120,000	-	-	-	-	-	-	-	-	-	-	-
ACVL Dividends	-	475	475	2,851	2,851	2,851	2,851	2,851	2,851	2,922	2,995	23,973
Diversified Fund Income	37,108	39,103	34,033	31,593	30,975	28,080	24,962	24,324	25,843	28,254	31,352	298,519
Working Capital. Change / Unpresented chqs	(6,624)	-	-	-	-	-	-	-	-	-	-	-
Decrease(Increase) in Receivables &Prepayments												
Miscellaneous Operational Capex	(186)	(12)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(156)
Administration Payments	(1,699)	(2,176)	(2,219)	(2,264)	(2,309)	(2,355)	(2,402)	(2,450)	(2,499)	(2,549)	(2,600)	(23,824)
Investment Management Costs	(1,208)	(2,910)	(3,014)	(2,894)	(2,808)	(2,569)	(2,442)	(2,519)	(2,669)	(2,861)	(3,099)	(27,786)
Net Operating Cashflow	179,193	56,207	55,584	58,369	61,164	61,814	62,346	65,356	70,677	77,166	84,562	653,246
Cashflow from Investing Activities												
Equity Acquisitions	(101,421)	-	-	-	-	-	-	-	-	-	-	-
Proceeds on Repayment of Advance	300	-	-	-	-	-	-	-	-	-	-	-
Net Investing Cashflows	(101,121)	-	-	-	-	-	-	-	-	-	-	-
Cashflow from Financing & Distribution Activities												
Borrowings	-	-	-	80,000	40,000	10,000	15,000	20,000	25,000	30,000	35,000	255,000
Repayment of Borrowings	-	-	-	(902)	(1,920)	(3,030)	(3,486)	(4,096)	(4,870)	(5,821)	(6,960)	(31,084)
Borrowing Interest Costs	-	-	-	(2,664)	(5,537)	(8,202)	(8,690)	(9,496)	(10,610)	(12,019)	(13,711)	(70,930)
Net Financing Cashflow	-	-	-	76,434	32,544	(1,232)	2,824	6,408	9,520	12,160	14,329	152,986
Legacy Grant Distributions	(59,866)	(50,482)	(52,873)	(13,153)	(3,787)	(10,174)	(337)	(521)	-	-	-	(131,328)
General ARC Distribution	(31,417)	(65,888)	(94,954)	(114,107)	(112,244)	(100,499)	(92,851)	(59,283)	(54,160)	(55,035)	(55,673)	(804,694)
Total LTFP Distributions	(91,283)	(116,370)	(147,827)	(127,260)	(116,031)	(110,673)	(93,188)	(59,804)	(54,160)	(55,035)	(55,673)	(936,022)
Net Financing & Distributions Cashflow	(91,283)	(116,370)	(147,827)	(50,827)	(83,488)	(111,906)	(90,365)	(53,396)	(44,640)	(42,875)	(41,344)	(783,036)
Net Cash Inflow / (Outflow)	(13,211)	(60,163)	(92,243)	7,543	(22,323)	(50,092)	(28,019)	11,960	26,037	34,291	43,217	(129,790)
Opening Cash & Fund Investments	557,850	544,639	484,477	392,234	399,776	377,453	327,361	299,343	311,303	337,340	371,632	
Closing Cash & Fund Investments	544,639	484,477	392,234	399,776	377,453	327,361	299,343	311,303	337,340	371,632	414,849	

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Appendix B

Appendix B – Financial Assumptions

This appendix documents the key financial assumptions in the 2006-2016 ARH LTFF.

General

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

The plan financial forecasts work from a base of the ARH 31 March 2006 actual financial results with best estimates made of the expected financial returns from the 2005/06 financial year and return assumptions made for the rest of the LTFF.

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%. This long-term assumption, provided by Mercer Investment Consulting, underpins all financial return assumptions and detailed modelling. For the forecast year to 30 June 2006 and the first plan year to 30 June 2007 the Reserve Bank's inflation estimates have been used, 3.2% and 2.5% respectively²³.

Where debt borrowing has been undertaken for the purposes of increasing potential distributions to the ARC this debt is assumed to be repaid over a period of 20 years and has an interest rate of 7%.

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

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

Financial Instruments and Diversified Fund Investment Portfolio

Forecast Returns Year ending 30 June 2006

Forecast return of 7.4%, return on short-term cash market securities recognised in the LTFF all as cash, for the year ending 30 June 2006.

Assumed Return 1 July 2006 to 30 June 2016

The assumed return having transitioned to a proxy diversified investment portfolio from 1 January 2007 is a gross return of 8.3% p.a.²⁴ 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 be converted into cash.

²³ Reserve Bank of New Zealand Monetary Policy Statement, March 2006.

²⁴ Mercer Investment Consulting estimate (8 May 2006) of the likely achievable average return over the period of the LTFF from an passive management diversified investment portfolio with an indicative construction delivering market risk / return set to achieve ARH's investment objectives and risk budget.

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Investment Management Costs 1 July 2006 to 30 June 2016

The management fee rate achieved is a function of the portfolio risk profile, asset allocation policy, and fund management practice adopted. The rate as a percentage of the fund quantum could be anywhere between seven and 50 basis points.

Investment management charges on a diversified growth fund are expected to be approximately 50 basis points (0.5%) of the total diversified non-equity investment portfolio.²⁵

Cash Advances by 100% Subsidiaries

Subsidiary loan funds advanced have been invested in ARH's liquid non-equity 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	31/03/06	
NDSL	20,137	Maintained for term of plan
ACVL	<u>1,000</u>	Maintained for term of plan
Total	<u>21,137</u>	

Other Investments and Subsidiaries

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

Ports of Auckland Limited (POAL)

Capital Value

ARH from 5 August 2005 holds 106,005,191 shares in POAL and no sales of any of the shares in POAL have been forecast.

The independent valuation of ARH's equity investment in POAL as at 31 December 2005 is \$748.5m, which is after allowing for the \$120m special distribution received from POAL in December 2005, and is equivalent to \$7.06 per share.

The total return on investment in POAL for the term of the plan is assumed to be 8.0% p.a. This return on investment is delivered to ARH by way of dividend streams and capital value appreciation currently calculated on the most recent recognised equity value, as noted above.

Dividends

POAL dividend payments received by ARH are premised on:

²⁵ Mercer Investment Consulting (8 May 2006). Assumption adopted on basis of uncertainty in portfolio construction and management specifics at this time.

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- a POAL earnings before interest and tax (EBIT) growth assumption of 6%. An earnings growth target considered appropriate by ARH and indicated as achievable by POAL, and
- a current POAL ordinary dividend payout policy to pay 75% of after-tax profits paid in two instalments at the half year and full year end.

America's Cup Village Limited (ACVL)

ACVL is assumed to have an equity value of \$35.6 million, net of an interest bearing loan from ARH of \$13.5 million. The value of ACVL is based on the net asset value of the company shown in its financial statements to 31 December 2005.

ACVL investment return assumptions are to:

- Reflect a cash yield on assets, less costs, from 1 July 2006. Net yield 1% per annum for two years until a decision is made on hosting the 2011 America's Cup. This cash yield equates to approximately \$475k per annum.
- Net cash yield from 1 July 2008 of 6% per annum reflecting an appropriate yield for such assets and accommodates the possibility of this yield alternatively coming from cup syndicate leases.
- All net cash yield is paid to ARH through dividends.
- Capital appreciation annually on land assets of 2.5% from 2012 following potential rezoning and mixed use development on Halsey Street Reclamation.

Northern Disposal Systems Limited (NDSL)

The NDSL investment and its advance to ARH are 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

ARH considers that strong value management of the investment portfolio and strong risk management is a minimum statutory requirement. A 2006/07 administration budget similar to that approved in 2005-2006 of \$2.3m, excluding investment management costs, is assumed. This equates to 0.16% of the total ARH investment portfolio, less than the ARH Board adopted benchmark target that administration costs not exceed 0.25% per annum.

For the remainder of the 10 year period of the LTFP the overhead costs are assumed to increase at the rate of inflation.

Direct investment fund management fees are a factor of investment strategy and could range from seven to 50 basis points. If the ARH asset base increases in size and/or complexity, fund management fees could increase in real terms to reflect this. The forecast investment management costs for 2006-2016 for a managed diversified portfolio is 0.5% of funds under management.

Investment management costs are a direct cost in the delivery of forecast financial return or the cost incurred to increase financial return. In this regard they are

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contingent upon investment strategy and particular investment activity. An estimate of activity cost and management fees for the 2006/06 year is \$2.9m.

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 legacy IA grant commitments (a total \$244.3 million existed on ARH establishment). Grant commitments remaining as of 31 March 2006 was \$148.5 million. These grant liabilities represent a 'constructive obligation' on ARH.

ARH has notionally reserved capital, received on establishment of ARH, to be made available to the ARC to meet these legacy IA grant commitments.

General Distributions to the ARC

Beyond the specified grant commitments, ARH will make further income and capital general distributions to the ARC under the policies outlined in Section 3 of the LTFFP.

The distributions available in total over the 10 years of the plan are a result of the above assumptions and having had regard to the ARC LTCCP.

It is important to note that investment returns and performance may differ in any year, and over time, from that which is forecast and that distributions available over the longer term are subject to change.