

Auckland Regional Holdings

Long-Term Funding Plan

**For the period from
1 July 2010 to 30 June 2020**

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Auckland Regional Holdings Long-Term Funding Plan For the period from 1 July 2010 to 30 June 2020

Executive Summary

This Long-Term Funding Plan (LTFP) covers the 10-year period from 1 July 2010 to 30 June 2020. It has regard to the Auckland Regional Council's (ARC) 2010/2011 Annual Plan and 2009/2019 Long-Term Council Community Plan (LTCCP).

This LTFP is required under the Local Government (Auckland) Amendment Act 2004 (the Act). As part of the Local Government (Auckland Council) Amendment Act 2010 the Act is to be repealed, with effect from 1 November 2010. In the absence of detail about the future of Auckland Regional Holdings (ARH), this Long-Term Funding Plan has been prepared within the terms of the Act while the transition to a single Auckland unitary authority progresses.

The Local Government (Tamaki Makaurau Reorganisation) Act states that, on 1 November 2010, the ARC and all the local councils in the Auckland region will be dissolved and their functions, duties and powers will transfer to a single unitary authority, the new Auckland Council, to be established on that date.

An Auckland Transition Agency (ATA) has been established to oversee the transition of the existing Auckland Councils and Council-Controlled Organisations (CCOs) into a unitary Auckland Council with appropriate CCOs from 1 November 2010.

The Local Government (Auckland Council) Amendment Act 2010, Local Government (Auckland Transitional Provisions) Act 2010 and Local Government (Tamaki Makaurau Reorganisation) Amendment Act 2010 assented on 14 June 2010, provides no detailed information as to the specific impact of the reorganisation on ARH and the assets that ARH currently holds.

ARH will work with the ATA and existing government organisations to assist the reorganisation. The ATA has the power to review any decision made by, or on behalf of, ARH and any such decision will be void and of no effect until it is confirmed by the ATA.

Context

ARH, a statutory, council-controlled organisation, focused on investment management, was established with the long-term intention of generating income to assist with funding the Auckland region's transport and storm water expenditure requirements. The ARC is the sole direct economic beneficiary of ARH's distributions. Section 34 of the Act requires that at least 85% of ARH's funding to the ARC, whether of income or capital must be used by the ARC for transport or stormwater programmes in the Auckland region.

The forecasts presented in this LTFP represent ARH's view of the most likely path the ARH investment portfolio will take over the next few years. This LTFP is therefore a snapshot in time. It is based on the best information available at that time comprising both historical and forecast data. As circumstances and the underlying economic environment materially change, the plan is adjusted accordingly.

While there are signs of recovery following the recession, uncertainty, particularly in global financial markets, remains. This may have an adverse impact on ARH's forecast earnings and therefore on its long-term funding capability.

It is in the interests of the Auckland region for ARH to provide a sustainable source of long-term funding to the ARC or its successor. The challenge is to provide funding certainty while ensuring that the total portfolio is sustainable.

As a long-term investor, ARH needs to be confident that its current, and any future investments, achieve an adequate return on capital. ARH has a 30-year investment horizon and 100-year planning horizon and has a diversified portfolio which is being actively managed to absorb short- to medium-term investment volatility.

ARH has four macro asset classes:

NZ equity – 100% ownership of Ports of Auckland Limited (POAL); NZ property – 16 hectares of land and waterspace in the Wynyard Precinct, on Auckland’s waterfront which includes project manager, Sea+City Projects Limited (Sea+City) (100% ARH-owned); diversified financial assets (DFA) (global stocks and bonds and NZ cash); and NZ short-term cash investments.

Key planning assumptions

Ports of Auckland

This LTFP includes an ARH forecast of dividends from POAL. The goal is for POAL to:

- Achieve its cost of capital over time which is necessary to provide New Zealand importers and exporters long-term certainty that efficient, profitable capacity will be available; and
- Ensure that fully-resourced port infrastructure continues to be provided for the benefit of the Auckland region and national supply chain.

These outcomes are required for the long-term benefit of New Zealand as seaborne international trade is of critical importance to the national economy. This requires an internationally-competitive, efficient and sustainable port sector and overall supply chain.

ARH believes that port sector optimisation in New Zealand is necessary to respond to shipping industry trends and to address a number of key issues facing the NZ port sector, including inadequate financial returns and the potential for significant wasteful investment.

NZ Property

The cash-flow forecasts included in this LTFP assume that the construction of public infrastructure and amenity works and private development in the Precinct Plan 1 will progress as planned for 2010 and beyond in the area along Jellicoe Street and in the Wynyard Precinct. Delays beyond this date due to the consenting process will have a significant adverse impact on the cash flows contained in this LTFP.

The ARH-owned Wynyard Precinct is a pivotal part of a 25-year Auckland waterfront renewal project managed by Sea+City which ARH established in 2007. The vision is to create a world-class, mixed-use, urban waterfront redevelopment. The urban renewal project is the largest of its kind in New Zealand.

LTFP requirements

Under section 21 (2) (b) (i) of the Act the LTFP must include “*forecasts of the funds required by ARC from ARH*”.

Table 1 below contains the level of funds required from ARH by the ARC as contained in the ARC’s 2010/2011 Annual Plan and 2009-2019 LTCCP.

Table 1: ARH Distributions to the ARC as reflected in the ARC's 2010-2011 Annual Plan and 2009-2019 LTCCP

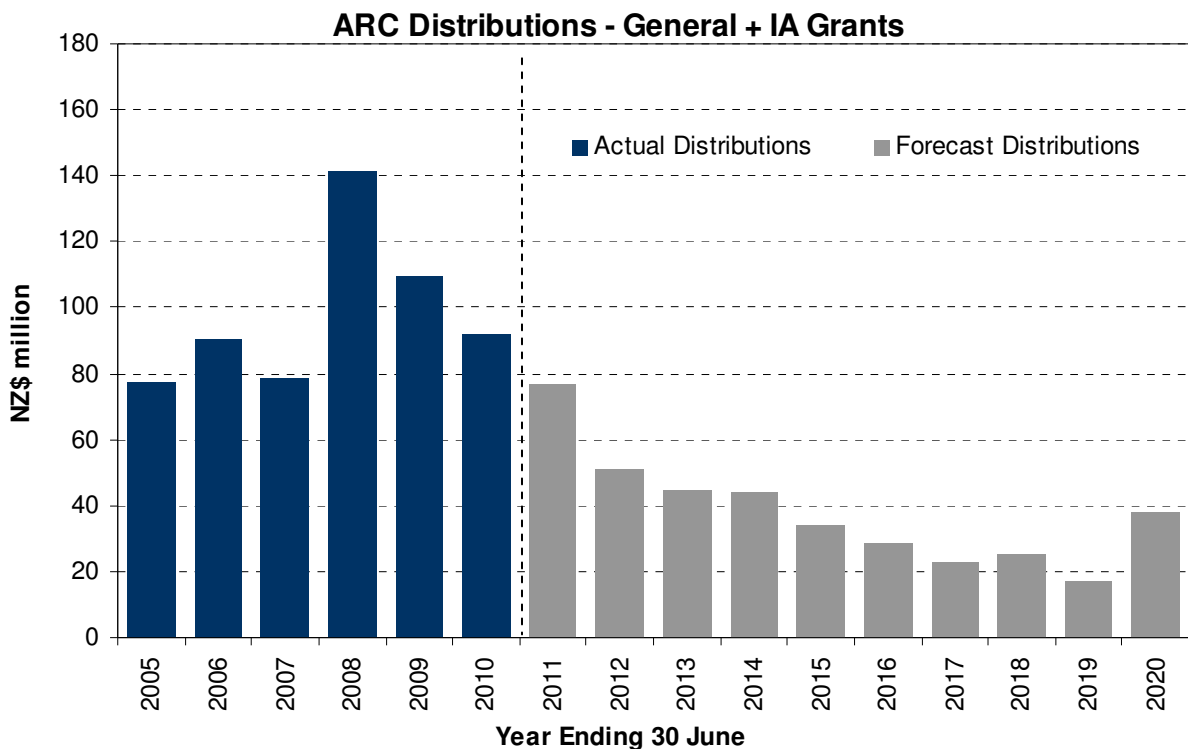
<i>Distributions (\$m)</i>	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
General Distributions	54.8	47.0	40.2	42.4	34.2	28.7	22.9	25.0	16.8	38.1	350.1
IA Grants	21.7	3.8	4.5	1.9	0.0	0.0	0.0	0.0	0.0	0.0	31.9
Total	76.5	50.8	44.7	44.3	34.2	28.7	22.9	25.0	16.8	38.1	382.0

Some assets held currently by ARH may be redistributed on 1 November 2010. Future distributions from ARH or its successor will depend on its asset base going forward.

It is noted that in the current economic climate, ARH is not able to meet its distribution policy target of providing 75% probability of achievement of paying 90% of planned distributions in years four to ten of this LTFP.

The actual level of funding provided to the ARC since ARH's inception in 2004 and the ARC required level of funding over the next ten years is illustrated in Figure 1.

Figure 1: ARH Distributions to the ARC, actual to date and as forecast in the ARC's 2010/2011 Annual Plan and 2009-2019 LTCCP



Forecast of funds

Under section 21 (2) (b) (ii) of the Act, ARH's LTFP must include a forecast of funds, both capital and income, that will be available for distribution by ARH and to the ARC.

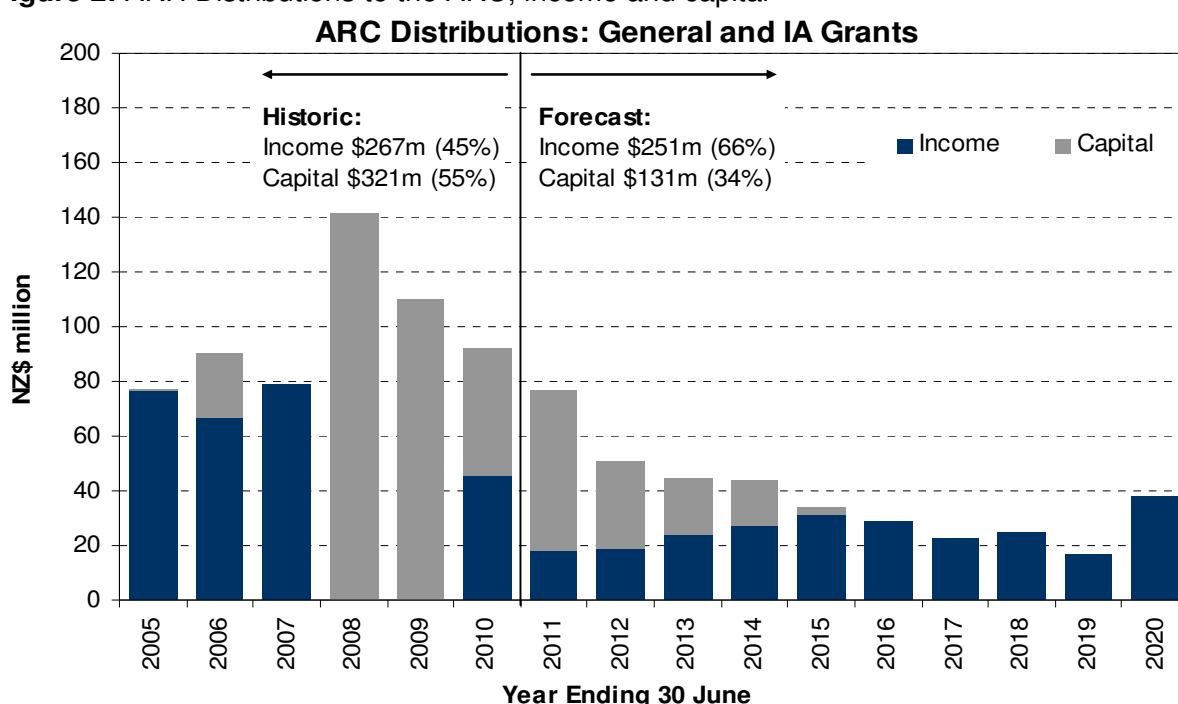
The amount of capital distributed to the ARC since ARH inception on 1 July 2004 to 30 June 2010 (expected to total \$321 million) coupled with the world financial crisis has put ARH's policy to maintain the revenue-generating capacity of the total portfolio under significant stress. Under current economic conditions which remain unpredictable, it is simply not possible to estimate medium- and long-term income figures with certainty. For ARH to achieve its policy objectives, its forecast distributions to the ARC would be approximately around the income levels illustrated in Figure 2.

ARH investment policy has been revised to accommodate this change in financial circumstances to reflect the following objectives:

1. Support ARH's core strategic investments (waterfront investment property and POAL);
2. Maintain the revenue-generating capacity of the total investment portfolio in the long-term; and
3. Maintain sufficient liquidity to support 1. and 2. above.

Figure 2 shows the split between income and capital for funding the distributions to the ARC based on the forecasts contained in this LTFP. Figure 2 also shows the income and capital proportions of the \$588 million distributed to the ARC from July 2004 to June 2010.

Figure 2: ARH Distributions to the ARC, income and capital



ARH investment performance since inception

ARH's gross cumulative annualised investment return for the five and half years since its establishment on 1 July 2004 to 31 December 2009 was 5.1% p.a. The annualised gross return for the cash investments over the same period was 7.2% p.a.

Investment summary

As at the start of this LTFP, 1 July 2010, the expected value of the ARH portfolio macro asset allocations is set out in Table 2 below.

Table 2: Expected gross investment allocation at the start of the plan, 1 July 2010.

Investment	\$ million	Share	Asset Allocation Category
POAL (NZ Equity - non-listed)	566.5	52.9%	Transport infrastructure utility (POAL)
NZ Property	195.5	18.3%	Waterfront property investment (incl. Sea+City)
Diversified Financial Assets	219.5	20.5%	Global equities, global bonds and NZ cash
NZ Short-term Cash	88.6	8.3%	NZ cash short-term market investment
Total ARH Investments	1070.1	100.0%	

Note: ARH's equity investment in POAL and NZ Investment Property Assets are independently valued at 30 June each year for the purpose of Annual Financial Reporting. At 31 December each year, these assets are reviewed internally for impairment, and if required an independent valuation is obtained.

Distributions to the ARC – actual and planned

From its establishment on 1 July 2004 to 30 June 2010, ARH will have distributed \$588 million to the ARC. Over the next ten years, until 30 June 2020, based on the forecast of funds required by the ARC, ARH would distribute \$251 million of forecast income and \$131 million of capital, bringing total income distributed to the ARC from 1 July 2004 to 30 June 2020, to \$518 million, and total distributed capital to \$452 million. This brings the total distributions forecast and actual from 1 July 2004 to 30 June 2020 to \$970 million.

If ARH distributed only income to the ARC over the next ten years this would improve confidence in its ability to provide long-term sustainable funding for the Auckland region. Meeting the ARC's required distributions has resulted in the liquidation of \$77 million of the DFA portfolio. The DFA was rebalanced to ARH's strategic asset allocation¹ in September 2009 in conjunction with the withdrawal of \$60 million. Further withdrawals are required to meet distributions from year one of this plan and may crystallise unrealised losses and restrict the ability of the portfolio to recover as forecast over time.

ARH does not plan to borrow in the current economic environment. It retains the ability to borrow should it be considered appropriate when giving consideration to ARH's statutory objectives.

¹ For details of ARH's strategic asset allocation, see pages 23-24

Auckland Regional Holdings

Long-Term Funding Plan

For the period from 1 July 2010 to 30 June 2020

1. Introduction

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. The Act is to be repealed, with effect from 1 November 2010. This LTFP covers the 10-year period from 1 July 2010 to 30 June 2020. It has regard to the Auckland Regional Council's (ARC) 2010-2011 Annual Plan and 2009-2019 Long-Term Council Community Plan (LTCCP).

Auckland Regional Holdings (ARH) has a rolling 20-year financial planning horizon while, for investment management purposes, it has a 30-year planning horizon. For overall strategic planning purposes, ARH utilises a 50-100-year time horizon².

a) Regional funding context

ARH, the ARC and the Auckland Regional Transport Authority (ARTA) have important roles to play in the development of Auckland's regional transport system.

- Ultimate responsibility for the development of the regional land transport strategy rests with the ARC.
- ARTA's brief is to translate the ARC's transport strategy into an integrated land transport programme. This responsibility extends to the planning, funding and development of transport solutions.
- ARH was established with the long-term intention of generating income to assist with funding the Auckland region's significant transport and stormwater expenditure requirements.

The ARH portfolio needs to be managed to provide long-term sustainable funding, particularly for public transport operating subsidies. The staging and phasing of capital (public transport) programmes will determine the ultimate scope of such subsidies.

b) Statutory Requirements

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;*
- (b) *ARH should undertake any commercial activities in accordance with sound business practice;*

² Consistent with the Auckland Sustainability Framework (ASF)

- (c) *ARH should ensure prudent stewardship and the efficient and effective use of resources;*
- (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;*
 - (ii) *the need to maintain and enhance the quality of the environment;*
 - (iii) *the reasonably foreseeable needs of future generations;*
- (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;*
- (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.*

The functions of ARH, are defined in Section 20, and include:

- (a) *Own, directly or indirectly, and manage assets (including funds) in the long-term interests of the Auckland Region;*
- (b) *Provide funds to ARC in accordance with ARH's long-term funding plan prepared under section 21;*
- (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 authorised by its statement of intent.*

The required LTFP contents are defined in Section 21 (2). An 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 matters:*
 - (i) *Forecasts of funds required by ARC from ARH;*
 - (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;*
 - (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.*

c) ARH establishment assets

When ARH was established on 1 July 2004, it had an asset base of \$1,284 million. In December 2004 the ARH Board committed to funding existing Infrastructure Auckland (IA) transport and stormwater commitments to the local councils. This reduced ARH's net asset base to \$1,041 million. This consisted of \$391 million in portfolio investments, cash funds and loans, excluding that required to meet legacy IA transport and storm water grant commitments (\$243.1 million) and direct equity investments of \$650 million, being primarily an 80% interest in POAL³. Other subsidiaries included America's Cup Village Limited (ACVL) and Northern Disposal Systems Limited (NDSL).

d) Core investment activity history to 30 June 2010

- On 1 April 2005, ARH made an offer at \$8 per share for the remaining listed shares in POAL. 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 investments (at 1 April 2005 cash investments amounted to \$634.3 million).
- On 30 June 2005, ARH's 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.
- 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 investments. The net benefit to the ARH group to 30 June 2010 of this capital restructure is estimated at \$12.9 million.
- On 30 June 2006, ARH's investment in POAL was valued by PricewaterhouseCoopers at \$797.4 million, resulting in an investment gain of \$48.9 million.
- In April 2006, ARH adopted its long-term investment objectives for which the ARC communicated its support in July 2006. ARH has subsequently progressed with the development of its detailed investment strategy in order to achieve these objectives.
- On 1 April 2007, ACVL and POAL transferred waterfront investment property with a fair value of \$284 million to ARH via an in-specie distribution. Remaining POAL waterfront investment property with a fair value of \$5.6 million was distributed to ARH in August 2007. A wholly-owned ARH subsidiary, Sea+City Projects Limited (Sea+City) was concurrently appointed as a dedicated special-purpose agent management company acting on behalf of ARH.
- On 29 June 2007, the Auckland City Council (Auckland City) announced an agreement to notify the District Plan for Wynyard Quarter which includes the development of the Wynyard precinct property owned by ARH. This LTFP includes the financial forecasts for ARH's investment property arising from this agreement.
- On 30 June 2007, ARH's investment in POAL was valued by PricewaterhouseCoopers at \$587.8 million.
- On 2 July 2007, ARH sold Wynyard precinct property, designated as public space in the notified district plan including 50% of the Headland Public Space, to Auckland City. Net cash proceeds received by ARH totalled \$59.8 million.
- In August 2007, the ARC acquired the remaining 50% of the Headland Public Space from ARH for \$23.5 million cash proceeds.
- The transition of \$300 million from NZ Short-term Cash investments to the Diversified Financial Asset (DFA) portfolio was completed in November 2007.
- On 30 June 2008, ARH's investment in POAL was valued at \$495.7 million by PricewaterhouseCoopers, resulting in a \$92 million equity investment write down.

³ Based on a share price on 30 June 2004 of \$7.05 cents per share

- In June 2009, ACVL was officially disestablished.
- In June 2009, ARH approved the provision of up to \$70 million capital support for POAL, structured as \$50 million equity and \$20 million loan. \$10 million of the equity and \$10 million of the debt has not been called by POAL and will only be called if required to satisfy its banking covenants. The loan is available for a period of three years and is repayable in \$10 million instalments at the end of years two and three. The loan will accrue interest at market rates from the end of year two.
- On 30 June 2009, ARH's investment property assets were valued at \$158.9 million, resulting in a \$65.7 million fair value adjustment write down for the financial year ended on that date.
- On 30 June 2009, ARH's investment in POAL was valued at \$506 million by PricewaterhouseCoopers resulting in a fair value adjustment increase of \$10.5 million for the financial year ended on that date.
- In September 2009, ARH withdrew \$60 million from its DFA portfolio, in compliance with its liability management policy, to have sufficient funds available on demand to meet its distribution obligations to the ARC.
- In May 2010, the AXA Rosenberg Global Small Company fund was redeemed and returned \$16.5 million to ARH. These funds have been retained in structured term deposits to meet budgeted ARH liquidity requirements.
- Like all investments in global markets, the DFA experienced exceptional turbulence. In the period from 1 July 2008 to 30 June 2009 the DFA experienced net unrealised losses of \$29 million⁴. By 31 March 2010 the DFA had recovered to its original starting position. Ongoing volatility is anticipated.

e) ARH performance from inception until 30 June 2009

As shown in Table 3, ARH's gross cumulative annualised investment return for the five and a half years since its establishment on 1 July 2004 to 31 December 2009 was 5.1% p.a. The annualised gross return for the cash investments over the same period was 7.2% p.a.

Table 3: Performance to Date (1 July 2004 – 31 December 2009) – Investment Return

Gross Returns		
Asset Class	Closing Asset Value (\$000)	Annualised Returns Since Inception (5.5 years)
POAL (NZ Equity - non-listed)	566.5	5.7%
NZ Property	195.5	2.0%
Diversified Financial Assets	219.5	4.0%
NZ Short-term Cash	88.6	7.2%
Total Portfolio	1,070.1	5.1%

*Notes: ARH's equity investment in POAL and NZ Investment Property Assets is independently valued at 30 June each year for the purpose of Annual Financial Reporting.
Return calculations are on a time-weighted basis.*

The future economic outlook is unclear due to uncertainty about the way in which global economies will develop over the next couple of years. The future earnings from ARH's investment portfolio could be significantly below historic performance and planned forecasts.

⁴ These losses arise based on marked-to-market valuations and are unrealised

f) Investment summary

As at the start of this LTFF, 1 July 2010, the expected existing macro asset allocation is as set out in Table 4 below.

Table 4: Expected gross investment allocation at the start of the plan, 1 July 2010

Investment	\$ million	Share	Asset Allocation Category
POAL (NZ Equity - non-listed)	566.5	52.9%	Transport infrastructure utility (POAL)
NZ Property	195.5	18.3%	Waterfront property investment (incl. Sea+City)
Diversified Financial Assets	219.5	20.5%	Global equities, global bonds and NZ cash
NZ Short-term Cash	88.6	8.3%	NZ cash short-term market investment
Total ARH Investments	1070.1	100.0%	

Note: ARH's equity investment in POAL and NZ Investment Property Assets is independently valued each year at 30 June, for the purpose of Annual Financial Reporting. At 31 December each year, these assets are reviewed internally for impairment, and if required an independent valuation is obtained.

Figure 3 below shows the asset allocation of ARH's total gross investment portfolio from 1 July 2004 through to the forecast allocation at 30 June 2010.

Figure 3: Performance and Forecast – Gross Investment Portfolio

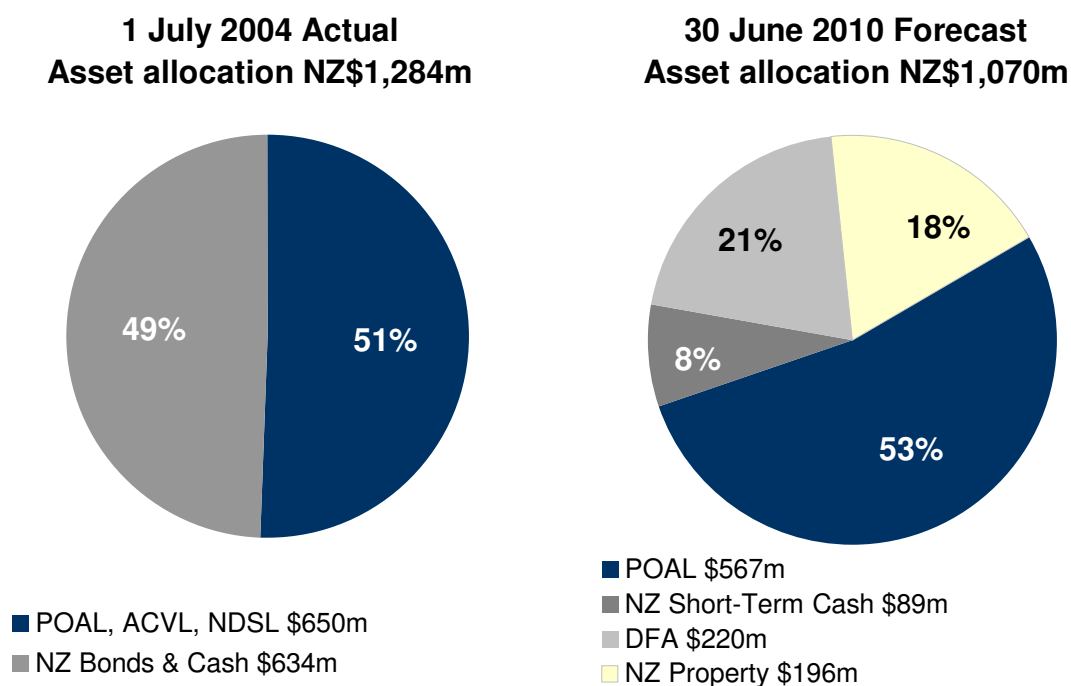
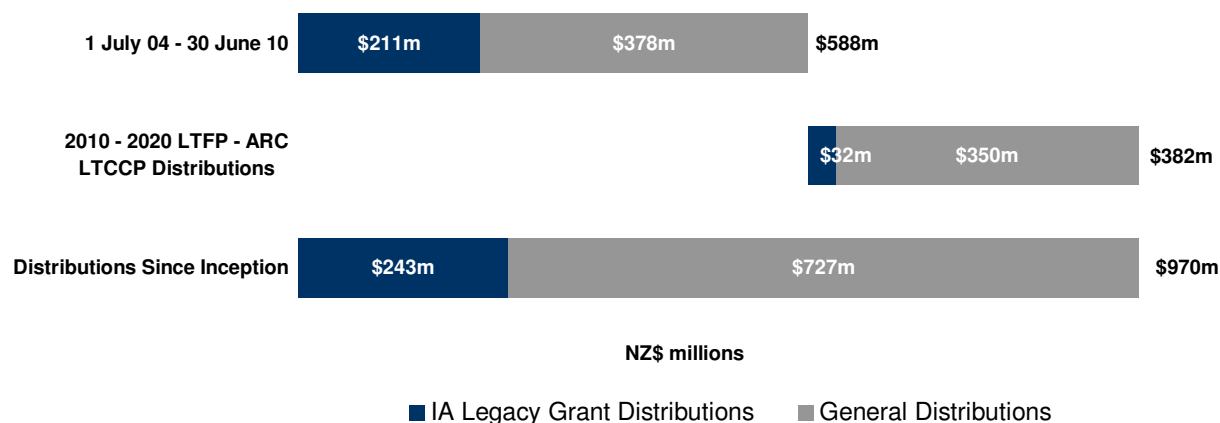


Figure 4 below shows the historical and required distributions to the ARC in its 2010-2011 Annual Plan and 2009-2019 LTCCP on a cash basis.

Figure 4: Performance to Date / Planned - Distributions to the ARC, On a Cash Basis



Note: Totals in the figure above may not sum exactly due to rounding

2. Key Planning assumptions in this LTFF

Ports of Auckland Limited (POAL) (NZ Equity – non-listed)

- Assessments as to POAL future operating returns, and therefore cash dividends, are made in a manner consistent with ARH's investment objectives of 95% certainty of distributions in years one to three and 75% certainty of achieving 90% of planned distributions in years four to ten (i.e. ARH providing the ARC with higher levels of funding certainty in the first three years versus years four to ten).
- In 2009, POAL completed a capital structure review and implemented an appropriate capital structure including renegotiation of its banking facility arrangements. ARH has provided POAL with up to \$70 million capital support, structured as \$50 million equity and \$20 million debt. \$10 million of the equity and \$10 million of the debt will remain uncalled unless triggered by bank facility covenants. The debt component is repayable to ARH from 30 June 2011 in \$10 million tranches and is subject to market rates of interest from this date.
- Over the first three years of the plan, the total POAL return (cash dividends and capital appreciation) averages 6.1% p.a. From 2013/2014 the total POAL return is forecast at approximately 8% p.a. Independent POAL valuations will be undertaken every year to determine the capital return on the POAL investment. This total return is at risk should significant reductions in freight volumes or container prices be sustained over several years.
- This LTFF assumes POAL's ordinary dividend payout policy is to pay 75% of after-tax profits in two instalments at the half-year and full-year end.
- This LTFF includes an ARH forecast of dividends from POAL. The goal is for POAL to:
 - Achieve its cost of capital over time which is necessary to provide New Zealand importers and exporters long-term certainty that efficient profitable capacity will be available; and
 - Ensure that fully-resourced port infrastructure continues to be provided for the benefit of the national supply chain.

These outcomes are required for the long-term benefit of New Zealand as seaborne international trade is of critical importance to the national economy and this requires an internationally competitive, efficient, sustainable port sector and overall supply chain.

Global logistics

The logistics industry worldwide is undergoing major change and rationalisation. Ports operate in an intensely competitive and dynamic environment influenced by ever-changing trends in economies, trade, transport and technology. Ports are under constant pressure from the international shipping sector, which is dominated by a few, large, international players. Due to declining profitability within this sector, shipping lines are constantly seeking to make efficiency gains and improve returns, through measures such as consolidation, strategic alliances, larger ships hubbing at fewer ports, increased vessel sharing and the removal of slot capacity from services to improve capacity utilisation. To continue to play the vital role of facilitating trade efficiently and effectively, ports must respond to the trends in their environment and keep ahead in the technology stakes, while reducing costs, improving efficiency and investing wisely.

As a long-term intergenerational investor, ARH is very aware of the effect of these changes on POAL as well as of increasingly carbon-constrained supply chains and the effect of long-term consequences of increasing real energy prices. In light of these international trends, proactive changes will inevitably be required in the NZ logistics supply chain. ARH has previously publicly communicated its view that in principle some form of port sector optimisation has strong merit. Optimisation does not necessarily mean a reduction in the number of ports, but is about how each port, or combination of ports, is best used to create value and an efficient supply chain that benefits the customer and New Zealand as a whole.

ARH believes that port sector optimisation in New Zealand is necessary to respond to shipping industry trends and to address a number of key issues facing the sector, including inadequate financial returns and the potential for significant inefficient investment. A co-ordinated whole-of-supply chain approach to infrastructure planning, involving input from a wide range of stakeholders, is also needed. This would help to provide the guidance and confidence needed to support the significant future investment in port and transport infrastructure required for New Zealand to remain internationally competitive. ARH is committed to playing its role in achieving an optimal outcome for the long-term benefit of New Zealand which results in:

- Efficient capital investment in port, transport, and other regional infrastructure which makes optimal use of existing investment and minimises unnecessary future duplication of investment and stranded assets;
- Sustainable long-term returns to enable future investment;
- Sufficient port and inland supply-chain capacity to handle future freight growth;
- Ensuring that New Zealand remains internationally competitive;
- Minimising supply-chain costs and increasing efficiency; and
- A reduction in carbon emissions.

NZ Investment Property

a) Waterfront properties

- Rental and lease income on waterfront property is directly managed by Sea+City, a special-purpose, investment property and redevelopment management services company acting for ARH. All day-to-day management of the property assets is handled by Sea+City. Expected revenue and net earnings from the properties are based on projections prepared by independent property valuers and Sea+City.
- Total return on the investment property assets, cash and capital, is forecast at 6.0%⁵ p.a. over the life of the project. This recognises the development nature of the Wynyard

⁵ Based on a conservative estimate of total return on the investment property. Independent valuation advice from Seagar and Partners and Barratt-Boyes Jefferies as at 30 June 2009 values the property based on a pre-tax discount rate of 9.85%

Precinct project. Underlying land value growth on the waterfront investment properties is assumed to be 1% real p.a.⁶.

- The cash flow forecasts included in this LTFP assume that the construction of public infrastructure and amenity works and private development in the Precinct Plan 1 area along Jellicoe Street commence in 2010 as planned. Delays beyond this date due to the consenting process will have a material adverse impact on the cash flows contained in this LTFP.

b) Sea+City Projects Limited (Sea+City)

- Sea+City manages the NZ investment property owned by ARH.
- Sea+City's role includes the following:
 - Conducting the master planning process for the project area according to the agreed urban design framework;
 - Project management of the Auckland City public infrastructure works for Wynyard Precinct which are jointly funded by ARH and Auckland City; and
 - The management of ARH leasehold interests.

Waterfront renewal project on Wynyard

Over the next 25 years around 29 hectares of Auckland's waterfront within Wynyard Quarter will be transformed in stages into a harbour-side community with parks and plazas, apartments, shops and offices, alongside the traditional marine and fishing industries. It is one of the largest waterfront urban renewal developments ever undertaken in New Zealand and the intention is for the area to be a world-class visitor destination.

The regeneration project is currently a cooperative venture co-funded by ARH, the majority landowner (16 hectares), and Auckland City, which will own the roads, promenades, wharves, parks and plazas. Auckland City will also share ownership of the large headland public space with the ARC.

The Wynyard project is governed by an award-winning framework agreement which was signed in 2007. In this same year, ARH established Sea+City to manage the revitalisation of its commercial land north of Pakenham Street. Auckland City, with ARH, also appointed Sea+City to project manage the design and construction of the public areas throughout Wynyard Quarter.

The retention and development of the marine industry is considered to be a critical part of the overall Wynyard Quarter development. Plans now being marketed incorporate optimal use of the waterfront space and potential for land-based infrastructure including slipways, more hard stand and state-of-the-art facilities for super yacht refit and repair. Establishing and generating growth in the marine industry will have a positive economic impact on the economy of Auckland City and the wider region and add to the character of the area.

Auckland City and ARH have jointly committed \$211 million to the public amenity and infrastructure work. Continuity of funding for this important development is essential. The benefits will continue beyond the completion of the public works part of the renewal programme. The Wynyard project area will continue to be owned by the public of Auckland.

⁶ Based on independent valuation advice from Seagar and Partners Limited and Barratt Boyes Jefferies Limited as at June 2009

Diversified Financial Assets (DFA)

- The strategic asset allocation is 50% of the DFA fund invested in global equities, 40% in global bonds and 10% in NZ cash.
- Active management of the total portfolio is being undertaken to improve the probability of achieving ARH's objectives, while maintaining a total investment portfolio risk profile within risk tolerance parameters.
- The DFA fund experienced \$28 million⁷ of net unrealised losses to 30 June 2009. The fund recovered \$30 million in the following period to 31 March 2010. Based on investment manager forecasts, the gross return is expected to average 6.0% until the end of 2011/2012. Long term, the fund has been structured to achieve an average gross return of 7.8%.

NZ Short-Term Cash

- The forecast 12-month gross return from ARH's NZ short-term cash market investment assets for the financial year ending 30 June 2010 is 3.1%. ARH has assessed short-term interest rates on its NZ short-term cash investments based on advice received from its fund managers.

General

- All elements of the plan have been prepared on a nominal-value basis rather than in real-value terms.
- The plan's financial forecasts work from a base of the ARH's 31 March 2010 actual financial results unless otherwise stated.
- Debt borrowing for the purposes of funding planned distributions to the ARC has not been forecast as this is not considered prudent in the current economic environment. A co-ordinated approach to borrowing across the ARC Group would suggest that the ARC as a rating entity would have a lower cost of debt than ARH.
- The convention adopted with respect to transaction recognition is 'cash accounting' rather than 'accrual accounting'. An example is the receipt of POAL dividends, which are recognised in the Income Statement at the time of distribution rather than at the time of announcement.
- Full consolidation of subsidiary financials has not been undertaken for the purposes of preparing the LTFP.
- ARH's current income tax exempt status means that, in general, no income tax is payable or receivable throughout the term of the plan. From 1 April 2007 ARH became a tax payer due to the Inland Revenue Department's (IRD) interpretation of ARH's interim port-related commercial undertaking (PRCU) assets. Under the IRD's interpretation, income tax is payable on rental income derived from investment property tenants whose main business is deemed to be a PRCU activity. This is at material variance with the intent of the Local Government (Auckland) Amendment Act 2004. ARH had been working with the IRD to resolve this anomaly; however the current Auckland Governance restructure has put this on hold.
- Depending on the nature of the global equity and global bond investments in the DFA portfolio, ARH may pay tax in some overseas tax jurisdictions.

⁷ These net unrealised losses arise based on marked-to-market valuations

Expenses

- ARH considers that strong value management of the investment portfolio and robust risk management is a minimum statutory requirement. A 2010/2011 administration budget of \$2.4 million (GST inclusive), excluding investment management costs, is assumed. This is within the ARH Board's adopted benchmark target that administration costs not exceed 0.25% of the average investment portfolio over a rolling five-year period.
- For the remainder of the ten-year period of the LTFP, normalised administration costs are assumed to increase at the rate of inflation.
- Direct-investment, fund-management fees are forecast to be 65 basis points (0.65%) over the term of this LTFP. As the ARH asset base increases or reduces in size and/or complexity, fund-management fees will fluctuate in dollar terms to reflect this.
- Waterfront investment property ongoing asset-management costs and specific development-related costs average \$4.3 million p.a. over the ten years of the LTFP. This level of expected expenditure reflects the quality of the public amenity infrastructure for the Wynyard precinct development.
- Lease management and leasing costs are included based on latest estimates from Sea+City.
- Public infrastructure costs are initially capitalised to the waterfront investment property. Any costs capitalised which are not supported by an independent fair market valuation will be expensed to the income statement as part of the annual fair market value adjustment.
- Other investment-management costs relate to the delivery of forecast financial returns or the cost incurred to increase financial returns. In this regard, they are contingent upon investment strategy and particular investment activity.

Inflation

- The forecasts in this LTFP are presented in nominal terms. The assumed long-run inflation rate is 2.2% p.a. The NZ Government Treasury employs a long-run inflation assumption of 2% (which is the mid-point of the Reserve Bank of New Zealand's price stability policy target for increases in the Consumer Price Index of between 1% and 3%) for its long-term financial modelling. Mercer⁸ has found evidence, both historical and from current market readings, that long-term inflation expectations may be higher than 2%. The mid- to long-term assumption of 2.2% has been used by Mercer in its financial return assumptions and detailed modelling and has been determined as appropriate for long-term investment return scenario-modelling.

⁸ Mercer, a wholly owned subsidiary of Marsh & McLennan Companies, Inc., is a provider of human resources and related financial advice, products and services

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.

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. It will also secure the long-term revenue-generating capacity of its investment base to ensure that it has sufficient liquidity to support its core strategic investments. ARH's core strategic investments comprise its cornerstone assets: its waterfront investment property and its equity investment in POAL.

This distribution policy will help ensure that:

- i) Access to the income generated from ARH's investment base is available across the full term of this LTFP and beyond to the longer-term financial planning and investment management horizons; and
- ii) ARH has funds available to respond to appropriate commercial opportunities as they arise.

ARH considers that sustained, long-term revenue generation is:

- i) In the long-term interests of the region;
- ii) Consistent with prudent asset management;
- iii) In accordance with ARH's operating principles; and
- iv) Best enables ARH to fulfill 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 alter from year to year and the 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) ARH will reserve sufficient funds to meet the legacy IA transport and stormwater grant commitments (expected remaining grant commitments at the start of this plan, 1 July 2010, amount to \$32 million) and a general income distribution of up to \$55 million in the year to 30 June 2011, if called by the ARC;
- ii) To facilitate the ARC's planning and budgeting process, ARH will endeavor to have available and distribute 100% of the planned distributions in the current LTFP for the first 12 months of the plan. This will occur 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;
- iii) If it is determined that distributions of capital are necessary to meet urgent short-term ARC funding demands, then external funding may be employed to assist with maintaining the revenue-generating capacity of the investment base;
- iv) In the case of ii) and iii) 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

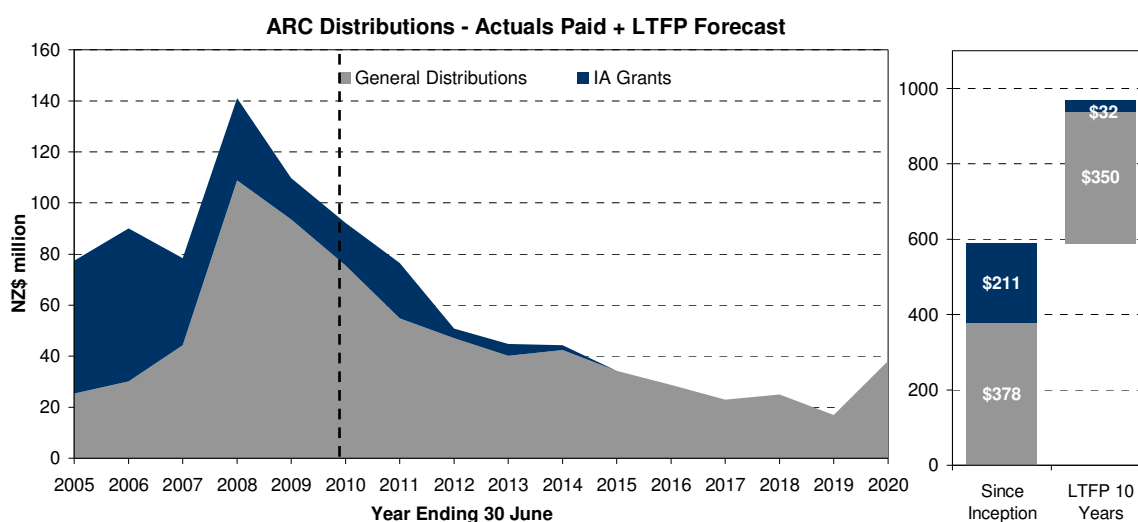
- v) In some years, the ARC may not have immediate need for all of the surplus income available to be distributed by ARH. In these circumstances the funds will be reinvested and remain available to the ARC in subsequent years (but subject to the other principles outlined above).

ARH has noted distribution commitments in i) relating to legacy IA transport and storm water grants existing at 30 June 2004. Other than these commitments, ARH's distributions of income will not be linked to expenditure by the 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 has had regard to the ARC's 2010/2011 Annual Plan and 2009-2019 LTCCP and as required under the Act, has considered the impact of the ARC draw-downs.

Figure 5 details the general distributions requested by the ARC as stipulated in its 2010/2011 Annual Plan and 2009-2019 LTCCP, as well as the current forecast distribution profile for IA legacy grant commitments.

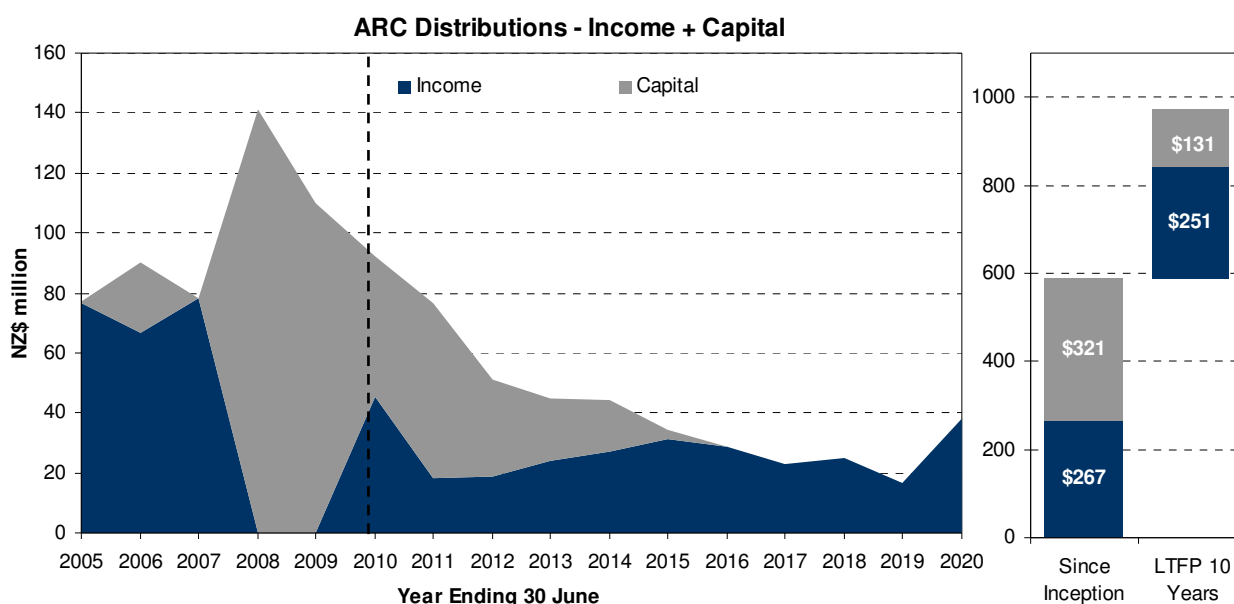
Figure 5: ARC's 2010-2011 Annual Plan and 2009-2019 LTCCP distributions ⁽¹⁾.



(1) Some assets may be redistributed in 2010 and therefore future distributions from ARH or its successor will depend on its asset base going forward.

Figure 6 shows the ARH funding source split between income and capital to deliver the distributions the ARC requires in its 2010-2011 Annual Plan and 2009-2019 LTCCP. Figure 6 also shows the income and capital proportions of the \$588 million distribution paid between July 2004 and 30 June 2010.

Figure 6: ARC's 2010/2011 Annual Plan and 2009-2019 LTCCP distributions, ARH income and capital.



ARH investment policy has been revised to accommodate changes in financial circumstances, and given these changes ARH considers that it is in the long-term interests of the Auckland region that ARH:

1. Support its core strategic investments (waterfront investment property and POAL);
2. Maintain the revenue-generating capacity of the total investment portfolio in the long term; and
3. Maintain sufficient liquidity to support 1. and 2. above.

ARH needs to maintain and support its core strategic investments which are identified as strategic regional assets which contribute economic benefits to the Auckland region. ARH's objective of maintaining the real revenue-generating capacity of its total investment portfolio is not achieved throughout this LTFF. It remains a long-term objective. It is crucial that ARH retains sufficient liquidity to support its strategic investments to assist ARH in achieving its long-term objectives.

4. Investment management policies

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

- i) The need to maintain sufficient liquidity to meet ARH's distribution commitments with 100% confidence in the first 12 months of the LTFF;
- ii) ARH's responsibility to optimise total returns (both cash yield and capital appreciation), within prudent risk limits, for the long-term benefit of the Auckland region;
- iii) The general policy of at least maintaining the real revenue-generating capacity of the investment base for the long term;
- iv) Maintaining sufficient liquidity within the portfolio to support its core strategic investments;
- v) The objective of ARH to manage its investment portfolio to optimise ARH's long-run disbursements to the ARC; and
- vi) The certainty that the POAL investment will continue to be a large proportion of ARH's total investment portfolio.

a) General portfolio investment policy

- i) ARH will invest and manage its investment assets on a prudent and commercial basis consistent with sound business practice as applicable;
- ii) ARH will manage its investment portfolio to maximise ARH's long-term disbursements to the ARC;
- iii) Consistent with the above and as a long-term investor, ARH will optimise return-on-investment, both in cash return and through capital appreciation, over the longer term; and
- iv) ARH has a 30-year investment horizon. It will accept short- and medium-term investment volatility in order to achieve superior investment returns over the long term.

b) Investment framework & strategy

ARH has a defined investment framework comprising fundamental investment beliefs and principles, long-term investment objectives and a strategic risk budget. This investment framework provides the context in which ARH has developed its long-term investment strategy. ARH has investments in the following four macro asset classes:

Table 5: ARH Macro Asset Classes

Asset Class	Investment
POAL – NZ Equity - Non-Listed	Ports of Auckland Limited (100%-owned subsidiary company)
NZ Investment Property	Waterfront land, wharf and waterspace property holdings (Wynyard precinct, Sea+City)
Diversified Financial Assets	50% global equities, 40% global bonds, 10% NZ cash
NZ Short -term cash	Bank deposits and registered certificates of deposit (RCD)

Specific investment objectives:

- i) To outperform the NZ Government Bond index by 1.5% p.a., 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% p.a. 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 per 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 per 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 debt-servicing criteria for borrowings used to finance distributions:
 - Annual interest costs at no more than 40% of total expected earnings.

The associated risk-management objective is:

- i) The strategic risk budget objective is 10% p.a. (subject to a maximum of 11% p.a.)
(This relates to the risk tolerance for annual volatility of earnings within ARH's total investment portfolio).

It is noted that in the current economic climate, ARH is not able to meet its distribution policy target of providing 75% probability of achievement of paying 90% of planned distributions in years four to ten of this LTFP.

ARH's confidence in its ability to provide long-term sustainable funding for the Auckland region would improve if ARH distributed only income to the ARC over the next 10 years. Meeting the ARC's required distributions has resulted in the liquidation of a significant proportion of the DFA portfolio. Further liquidation and potentially realising losses would restrict the ability of the portfolio to recover as forecast over time.

While not achieved in this LTFP, ARH still considers this long-term distribution policy target appropriate and will work towards this target.

External funding facilities

ARH's overall investment strategy is dependent on realistic time horizons which require the capital base of the portfolio to be sustained while the investment plan is in operation.

External funding may be required for purposes, including inter-generational equity management and purposes associated with investment portfolio management and holding structures, having regard to the statutory framework within which ARH must operate.

ARH has determined its borrowing capacity in accordance with the debt-servicing criteria embedded in its investment objectives⁹. ARH does not deem it appropriate or prudent to utilise planned external debt funding to meet the ARC distribution requirements. A co-ordinated approach to borrowing across the ARC Group would suggest that the ARC as a rating entity would have a lower cost of debt than ARH.

c) NZ Investment Property investment policy

The objectives in respect of the waterfront investment property are to:

- i) Enable the creation of a world-class, mixed-use, urban waterfront redevelopment that becomes a visitor destination by delivering high-quality and accessible public spaces and attractions alongside high-quality private works;
- ii) Give effect to the ARC's and Auckland City Council's Waterfront Vision 2040 statement of principles;
- iii) Adhere to principles of design quality, sustainability, environmental, cultural and social responsibility;
- iv) While achieving i, ii, and iii, optimise the cash returns from the waterfront investment property and deliver long-term value to stakeholders on a commercially-feasible and sustainable basis; and
- v) Operate as a development facilitator and agent landlord rather than as a developer (other than by way of managing the public amenity and infrastructure works to be implemented at the Wynyard Precinct and developing a key initial activation site, Site 14 and a heritage tramway).

d) Direct equity portfolio investment policy

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

⁹ Historically and as a general principle, the ARH Board anticipates that approximately one-third of ARH's borrowing capacity may be used, if required, for funding planned distributions to the ARC and approximately two-thirds in the event of an adverse earnings year.

e) Diversified Financial Assets investment policy

In 2007, ARH reallocated a significant portion of its short-term cash investments to the long-term DFA portfolio.

The DFA is a portfolio of marketable financial assets. The DFA is considered instrumental in generating solid returns over the long term, while balancing the total portfolio from a diversification and risk-management perspective.

At the inception of ARH in July 2004, 100% of ARH's investment portfolio was invested in New Zealand and was subject to the same financial conditions. In order to better manage risk and to deliver on ARH's long-term investment objectives, it was considered necessary to diversify and allocate some of ARH's investment portfolio to assets uncorrelated with the rest of ARH's investment portfolio.

After undertaking thorough research, including obtaining independent investment advice and reviewing investment strategies of peer organisations¹⁰, it was deemed appropriate for ARH to invest in a diversified mix of financial assets in global markets. The DFA was implemented in stages during 2007 and is expected to counter some of the risk of having all ARH investments exposed to New Zealand specific financial conditions, while also being capable of delivering high-quality returns over the long term in order to achieve ARH's overall investment objectives.

While the DFA has experienced volatility based on current mark-to-market valuations, the portfolio is positioned to benefit from gains and revenue over the long term. At the time of entering the global markets in 2007, market pricing was deemed to be fair.

As a result of the current economic environment ARH has, for liquidity-management purposes, redeemed some funds from the DFA. This redemption of funds was completed in accordance with ARH's current strategic asset allocation policy.

Full details of the DFA policies are contained in ARH's Statement of Investment Standards, Policies, and Procedures for the DFA, which is available from ARH's website www.arh.co.nz. Key policies are summarised below.

General policy

- Investment in the DFA is made in compliance with all laws and regulations applicable to ARH.
- The DFA investments are managed with a view to ensuring that the DFA has sufficient liquidity to meet expected cash-flow requirements.
- Investment risk is limited by appropriate diversification both within and between asset classes.

Strategic asset allocation

ARH has a strategic asset allocation policy that specifies the percentage of funds to be invested in each asset class within the DFA. The benchmark portfolio that the DFA returns will be monitored against over the long term is shown in Table 6.

¹⁰ For example, the New Zealand Superannuation Fund.

Table 6: Strategic asset allocation for the DFA

Asset Class	Strategic Allocation
Global equities (shares)	50%
Global Fixed Interest (bonds)	40%
New Zealand Cash	10%
Total Portfolio	100%
Comprising:	
Growth Assets	50%
Income Assets	50%
Foreign Currency Exposure	25%

- Global Equities comprises separate allocations to large/mid-capitalisation, small capitalisation and emerging markets equities. Global Fixed Interest comprises separate allocations to sovereign and non-sovereign debt (bonds).
- The exposures to the various asset classes are monitored, taking into account the underlying exposures in any pooled investment vehicles and the impact of futures and options on an effective exposure basis.

Foreign currency exposure

- The Board's policy is to hedge 50% of global equities and 100% of global fixed interest back to New Zealand dollars. This results in the DFA being 75% hedged (invested in New Zealand dollars), and 25% of the portfolio exposed to foreign currency. The foreign currency policy is reviewed regularly and altered where appropriate.

Investment management structure

- The DFA is managed by external specialist fund managers and ARH directly manages the relationships with those fund managers. ARH's current strategic benchmark portfolio allocation to fund managers is set out in Table 7.

Table 7: ARH strategic benchmark portfolio allocation to fund managers

Asset Class	Investment style¹¹	Strategic Allocation
Global Equities	Large-mid cap global shares / Core	20.0%
	Large-mid cap global shares / Value	10.0%
	Large-mid cap global shares / Growth	10.0%
	Small cap global shares	7.5%
	All cap emerging markets shares	2.5%
	Currency overlay hedging 50% of Global Equities	
	Total Global Equities	50.0%
Global Bonds	Global bonds / focus on macro economic themes	20.0%
	Global bonds / focus on corporate and sovereign credit themes	20.0%
	Total Global Bonds	40.0%
New Zealand Cash	Fixed Interest NZ Cash Investments	10.0%
	Total NZ Cash	10.0%

Risk management

- The risk budget for the DFA is consistent with ARH's overall long-term investment objectives.
- The quality of ARH's risk-management procedures is of best-practice standard.
- The Board ensures that all fund managers adhere to specified investment-management guidelines and risk-management policies.
- The Directors are committed to implementing responsible investment to manage risk and to enhance the prospects of ARH achieving its investment objectives.

Performance monitoring

- Manager performance is monitored at least quarterly with an annual evaluation of rolling three-year results.
- Managers' roles are reviewed regularly by the Board. Factors taken into account in these reviews include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the Managers' continuing ability to meet the applicable investment objectives.
- The Managers report at least quarterly in accordance with a format agreed with the Board.
- Returns achieved by the appointed managers are assessed by the Board in relation to their stated objectives and the objectives of the DFA. Returns are also compared with returns earned by an appropriate peer group.
- Performance for individual asset classes is measured against appropriate indices.

¹¹ Investment Style definitions:

Large Cap: shares with a market capitalisation of among the largest within a market, such as the capitalisation of one of the top 100 companies in the UK as represented by the FTSE 100 Index. In the US, it is defined as a stock with a market capitalisation of over US \$5 billion.

Mid Cap: shares with a market capitalisation around the middle of a market. In the UK, a mid-cap stock is normally considered to be one placed in the FTSE Mid 250 Index. In the US, it is defined as a stock with a market capitalisation of between US \$1 billion and US \$5 billion.

Small Cap: shares with a market capitalisation of among the smallest within a market, although the definition of what is small is to some extent arbitrary. In the UK, it is usually defined as a stock with a capitalisation below that of the top 350 companies, as represented by the FTSE Small-Cap Index.

Emerging Markets: Financial markets in developing or newly industrialising countries. Such markets can deliver high returns due to the rapid pace of industrialisation, but can be risky due to low liquidity, lack of reliable information and potential political instability.

5. 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.

Investment intentions are 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.

6. 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 the Assurance and Risk Committee;
- ii) Working capital funds not held in the investment portfolios are managed in accordance with sound business practice;
- iii) Regular projected cash flow schedules are prepared so that surplus funds can be identified and transferred to the portfolios, following dividend or significant capital funds receipts;
- iv) Sufficient funds are held in ARH's nominated bank call account to cover short-term projected office expenditure payments and distributions to the ARC; and
- v) Funds not required to meet short-term cash flow are transferred to the investment portfolios for investment.

7. 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, the one-year distribution commitments made in the LTFP and remediation obligations and Framework Agreement obligations associated with the Wynyard Precinct.

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 stated in ARH's distribution policy in section 3. b) iii), where distributions are in excess of what would be recommended for sustained revenue-generation of the investment portfolio over the long term, ARH may borrow against its investments to meet the additional distributions. This LTFP assumes that no planned external funding is utilised to support distributions to the ARC. In the event of an adverse earnings year external funding may be used in order to provide certainty of short-term funding to the ARC.

8. Summary ARH financial forecasts

As at 30 June 2010, the forecast ARH Balance Sheet reflects net assets (excluding IA legacy grant commitments) of \$1,007 million consisting of POAL equity investment (non-listed) \$567 million, DFA \$220 million, NZ Short-term cash investments \$89 million and \$164 million in NZ Investment Property investments, being property directly owned by ARH. The remaining legacy IA transport and stormwater grant commitments to the local councils are expected to be \$32 million. The forecast 30 June 2010 Balance Sheet forms the base for the financial statements in this plan.

Table 8 summarises ARH's ten-year forecasts based on the assumptions outlined earlier and the forecast of funds required by the ARC from ARH specifically showing:

- 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 net assets over time.

The forecasts are shown in greater detail in the ARH entity financial statements provided in Appendix A.

Table 8: Summary of ARH financial forecasts

\$ millions	FY2010 Forecast	FY2011 Plan Yr 1	FY2012 Plan Yr 2	FY2013 Plan Yr 3	FY2014 Plan Yr 4	FY2015 Plan Yr 5	FY2016 Plan Yr 6	FY2017 Plan Yr 7	FY2018 Plan Yr 8	FY2019 Plan Yr 9	FY2020 Plan Yr 10	Total 10 years
ARH Investment Yield												
Gross Cash Yield												
POAL Income	23	16	18	20	22	24	24	25	25	26	27	227
NZ Investment Property Gross Yield	8	6	8	9	10	12	13	14	16	17	18	121
NZ Short-term Cash Investments Gross Yield	2	1	0	0	0	0	0	0	0	1	1	5
Diversified Financial Assets Gross Yield	26	12	10	12	12	11	11	11	12	13	13	115
Total Gross Cash Yield	59	34	36	40	44	46	48	50	53	57	59	468
POAL Capital Appreciation	10	16	19	21	24	24	25	27	28	30	31	246
NZ Investment Property Appreciation	-	7	9	9	8	7	5	5	3	1	1	54
Total Gross Yield	69	57	65	71	77	77	78	81	83	88	91	768
Admin & Investment Management Costs	(12)	(15)	(15)	(15)	(15)	(14)	(12)	(10)	(10)	(10)	(10)	(126)
Net Pre-tax ARH Yield	57	42	49	56	62	63	66	72	74	78	81	642
Taxation	(1)	(1)	(2)	(1)	(2)	(1)	(2)	(2)	(2)	(2)	(2)	(18)
Net Post-tax ARH Yield	55	41	47	55	60	62	64	70	71	76	79	624
Distributions												
Distributions for Legacy IA Grants ⁽¹⁾	(17)	(22)	(4)	(5)	(2)	-	-	-	-	-	-	(32)
General ARC Distributions	(76)	(55)	(47)	(40)	(42)	(34)	(29)	(23)	(25)	(17)	(38)	(350)
Total Distributions	(92)	(77)	(51)	(45)	(44)	(34)	(29)	(23)	(25)	(17)	(38)	(382)
Value of Net Assets												
POAL (including loan)	567	573	592	613	638	662	687	714	742	772	803	
NZ Investment Property	164	216	243	223	225	242	241	261	240	246	238	
Diversified Financial Assets	220	211	160	169	158	145	153	156	168	180	194	
NZ Short-term Cash	89	4	5	4	5	4	7	5	32	42	47	
Less Legacy IA Grant Distributions	(32)	(10)	(6)	(2)	-	-	-	-	-	-	-	
Total Net Investment Capital	1,007	994	994	1,008	1,026	1,053	1,088	1,135	1,182	1,241	1,281	

(1) A total of \$243 million of ARH's liquid funds were "reserved" in 2004 to meet the regional transport and stormwater grant commitments existing at 1 July 2004. Numbers may not add up due to rounding

The forecasts show:

- ARC's 2010/2011 Annual Plan and 2009-2019 LTCCP general distributions of \$350 million plus \$32 million legacy grants required over the 10-year period of this LTFP;
- A total post-tax net ARH yield from all sources of \$624 million. This compares with a total net ARH yield of \$509 million in the LTFP published in June 2009 (refer to Table 9 and accompanying commentary for explanation of the expected change in yields); and
- From 1 July 2010 to 30 June 2020, over the ten years of the 2010-2020 LTFP, there is a forecast \$274 million increase in the net assets of the fund.

Table 9 below compares ARH's Net Yield with that shown in the 2009-2019 ARH LTFP published in June 2009.

Table 9: Forecast ARH Net Yield

(\$ millions)	2009-2019 at Jun 09	2010-2020 at Jun 10	Change ⁽¹⁾
POAL Dividends	201	227	25
NZ Investment Property Gross Yield	112	121	8
NZ Short-term Cash Investments Gross Yield	8	5	(3)
Diversified Financial Assets Gross Yield	74	115	41
Total Gross Cash Yield	395	468	73
POAL Capital Appreciation	191	246	54
NZ Investment Property Appreciation	68	54	(14)
Total Gross Yield	655	768	113
Admin & Investment Management Costs	(128)	(126)	2
Net Pre-tax ARH Yield	527	642	115
Tax (PRCU)	(18)	(18)	-
Net Post-tax ARH Yield	509	624	115

(1) Numbers may not add up due to rounding

As noted in Section 2, "Key Planning Assumptions in this LTFP", the total return (cash dividends and capital appreciation) on POAL shares for the initial three years of this plan averages 6.1% p.a. From 2013/2014 the total return of cash dividends and capital appreciation is assumed to be 8% p.a.

The 10-year NZ Short-term cash yield has decreased as the short-term cash investment fund has been drawn down to fund distributions and investment property expenditure. This asset class is used primarily to fund short-term liquidity requirements. The change in structure of the NZ short-term cash investments portfolio to funds at call and term deposits coupled with a reduction in interest rates has reduced the forecast cash rate of return from 3.9% p.a. to 3.1% p.a.

The economic downturn impacted the DFA. Since 30 June 2009 the portfolio has recovered. ARH's investment advisors believe that the 20 year gross long-term return assumption of 7.8% p.a. is appropriate. This takes into consideration the recovery experienced to date.

ARH's contribution to public amenity and infrastructure development costs for the Wynyard precinct, totalling \$95 million over the ten years of this LTFP, are capitalised to the investment property asset and the fair value assessed by independent property valuers at year end. Costs incurred not supported by the independent valuation are expensed to the Income Statement through the investment property fair value adjustment. Table 9 shows investment property

appreciation of \$54 million based on an average 6.0%¹² p.a. total return (cash and capital) over the LTFP period. The underlying nominal land value growth rate for leases has been assumed at 1% real p.a.¹³.

9. Key risks

ARH will manage and mitigate both investment and organisation risk.

Investment risk

- a) ARH has established a strategic investment risk budget. This risk budget provides a framework within which investment decisions can be made to meet ARH's returns objectives.
- b) ARH seeks to ensure its total investment portfolio is within its overall strategic risk budget target. As detailed in d) below, combined with the significant level of capital distribution, the current target may not be appropriate.
- c) To deliver long-term sustainable disbursements to the ARC, it is necessary for ARH to maintain an appropriate asset allocation across a range of asset classes which will ensure that return volatility is managed in a prudent manner.
- d) The current economic environment is highly uncertain. Assumptions underlying the financial forecasts included in this LTFP are all under review and are constantly being monitored and revised due to the current global economic environment.

Organisation risk

- ARH manages its organisation and operation risk through implementing best-practice, internal-control procedures, policies and guidelines, and through employing staff and advisors with appropriate skills and expertise. ARH will continue to assess and implement any necessary procedures to ensure it complies with best-practice governance standards.

¹² Based on a conservative estimate of total return. Independent valuation advice from Seagar and Partners Limited and Barratt-Boyes Jefferies Limited in June 2009 values the property based on a pre-tax discount rate of 9.85%

¹³ Based on independent valuation advice from Seagar and Partners Limited and Barratt Boyes Jefferies Limited as at June 2009

Appendix A: ARH Financial Statements

Forecast Income Statement (Year ending 30 June)

Auckland Regional Holdings (parent)

(\$000's)

	FY2010 Forecast	FY2011 Plan Yr 1	FY2012 Plan Yr 2	FY2013 Plan Yr 3	FY2014 Plan Yr 4	FY2015 Plan Yr 5	FY2016 Plan Yr 6	FY2017 Plan Yr 7	FY2018 Plan Yr 8	FY2019 Plan Yr 9	FY2020 Plan Yr 10	Total 10 years
Revenue												
Operating Revenue												
POAL Dividends	22,326	15,000	18,000	20,000	22,300	23,800	24,324	24,859	25,406	25,965	26,536	226,188
POAL Loan Interest Income	368	654	-	-	-	-	-	-	-	-	-	654
Investment Property Operating Receipts	8,481	5,618	8,186	8,626	9,899	11,547	12,899	13,754	15,679	16,903	17,527	120,638
NZ Short-Term Cash Investment Income	2,233	740	152	268	199	198	292	243	61	1,229	1,457	4,838
Diversified Financial Assets Income	26,027	11,597	9,872	11,580	11,794	10,901	10,657	11,170	11,660	12,530	13,465	115,226
Total Revenue	59,436	33,609	36,209	40,474	44,192	46,446	48,172	50,025	52,805	56,627	58,985	467,544
Total Investment Management Costs	(9,345)	(9,782)	(10,750)	(10,695)	(10,502)	(9,582)	(9,142)	(6,365)	(6,987)	(6,501)	(6,732)	(87,038)
Gross Margin	50,091	23,827	25,459	29,779	33,689	36,864	39,029	43,660	45,818	50,126	52,253	380,506
Total Overheads	(2,293)	(2,419)	(2,445)	(2,498)	(2,553)	(2,609)	(2,666)	(2,725)	(2,784)	(2,845)	(2,908)	(26,452)
Other Investment Property												
Remediation Provision Imputed Interest Expense	(1,515)	(2,310)	(2,268)	(2,167)	(2,312)	(1,785)	(443)	(487)	(188)	(206)	(226)	(12,394)
Remediation Expense	705	-	-	-	-	-	-	-	-	-	-	-
Fair value adjustment Investment Property	-	7,422	9,074	9,184	8,353	6,741	4,756	4,609	2,524	1,304	502	54,470
Total Other Investment Property	(810)	5,112	6,806	7,017	6,041	4,956	4,313	4,122	2,336	1,098	276	42,076
Net Surplus before Taxation	46,988	26,520	29,820	34,298	37,177	39,211	40,676	45,057	45,370	48,378	49,621	396,130
Tax Expense	(1,441)	(799)	(1,929)	(1,023)	(1,725)	(1,456)	(2,442)	(1,667)	(2,042)	(2,268)	(2,181)	(17,531)
Net Surplus after Taxation	45,547	25,721	27,892	33,276	35,453	37,755	38,234	43,390	43,328	46,111	47,440	378,599
General ARC Distributions	(75,503)	(54,826)	(47,022)	(40,190)	(42,389)	(34,238)	(28,703)	(22,886)	(24,974)	(16,821)	(38,126)	(350,174)
Net Surplus after Distributions	(29,705)	(29,105)	(19,130)	(6,914)	(6,937)	3,518	9,531	20,503	18,354	29,290	9,314	28,425
POAL Share Equity Appreciation	9,944	15,644	19,233	21,443	24,325	24,036	25,315	26,678	28,132	29,683	31,338	245,828
Net Change in Accumulated Funds and Reserves	(19,737)	(13,461)	103	14,529	17,388	27,553	34,846	47,182	46,487	58,973	40,653	274,253

Forecast Balance Sheet (as at 30 June)

Auckland Regional Holdings (parent)

(\$000's)

Current Assets

	FY2010 Forecast	FY2011 Plan Yr 1	FY2012 Plan Yr 2	FY2013 Plan Yr 3	FY2014 Plan Yr 4	FY2015 Plan Yr 5	FY2016 Plan Yr 6	FY2017 Plan Yr 7	FY2018 Plan Yr 8	FY2019 Plan Yr 9	FY2020 Plan Yr 10
Cash at Bank	40,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
NZ Short-Term Cash Investments - current portion	48,554	2,500	0	2,500	2,500	-	-	-	-	-	-
DFA - current portion	20,476	60,020	3,068	22,722	24,181	2,027	8,410	-	-	-	-
Prepaid Property Rentals	4,466	4,221	3,864	3,864	3,864	2,682	592	592	592	593	546
POAL Loan - current	9,346	-	-	-	-	-	-	-	-	-	-
Other Receivables	987	3,987	3,987	987	987	987	987	987	987	987	987
Total Current Assets	123,828	72,728	12,918	32,072	33,532	7,696	11,988	3,578	3,578	3,580	3,532

Non-Current Assets

Property, Plant & Equipment	33	27	27	27	27	27	27	27	27	27	27
NZ Short-Term Cash Investments - non-current portion	0	0	2,500	0	0	2,500	4,666	2,500	29,932	40,130	44,681
Diversified Financial Assets	199,041	150,618	157,421	146,280	133,892	142,766	145,014	156,183	167,843	180,373	193,839
Sea+City Projects Limited	502	502	502	502	502	502	502	502	502	502	502
Ports of Auckland Limited - equity investment	557,166	572,811	592,043	613,486	637,811	661,847	687,162	713,840	741,973	771,656	802,995
POAL Loan - non current	0	0	-	-	-	-	-	-	-	-	-
NZ Investment Property	166,393	218,906	254,979	273,865	289,075	303,344	326,684	346,737	355,420	362,008	366,299
Prepaid Property Rentals	23,190	18,968	15,105	11,241	7,377	4,696	4,104	3,513	2,921	2,328	1,782
Total Non-Current Assets	946,325	961,831	1,022,577	1,045,400	1,068,685	1,115,682	1,168,160	1,223,303	1,298,618	1,357,025	1,410,124

Total Assets

	1,070,154	1,034,559	1,035,495	1,077,472	1,102,217	1,123,377	1,180,148	1,226,881	1,302,196	1,360,605	1,413,657
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Current Liabilities

Operating Creditors & Accruals	4,934	4,934	4,934	4,934	4,934	4,934	4,934	4,934	4,934	4,934	4,934
Legacy Grant Commitments - current portion	21,728	3,847	4,538	1,875	-	-	-	-	-	-	-
Total Current Liabilities	26,662	8,781	9,472	6,808	4,934	4,934	4,934	4,934	4,934	4,934	4,934

Non-Current Liabilities

Legacy Grant Commitments - non-current portion	10,259	6,412	1,875	-	-	-	-	-	-	-	-
Provision for Remediation	26,167	25,761	25,297	24,170	25,787	19,911	4,946	5,433	2,092	2,298	2,524
Lease Income received in advance	0	0	5,144	38,257	45,871	45,353	82,244	81,308	113,478	112,707	124,881
Total Non-Current Liabilities	36,426	32,173	32,315	62,427	71,657	65,265	87,189	86,741	115,570	115,005	127,405

Total Liabilities

	63,088	40,954	41,787	69,235	76,591	70,198	92,123	91,675	120,503	119,939	132,338
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Net Assets

	1,007,066	993,605	993,708	1,008,237	1,025,625	1,053,179	1,088,025	1,135,206	1,181,693	1,240,666	1,281,318
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Equity

Reserves	20,904	36,548	55,781	77,224	101,549	125,584	150,899	177,578	205,710	235,394	266,732
Accumulated Funds	986,162	957,057	937,928	931,013	924,077	927,595	937,125	957,628	975,983	1,005,272	1,014,586
Total Equity	1,007,066	993,605	993,708	1,008,237	1,025,625	1,053,179	1,088,025	1,135,206	1,181,693	1,240,666	1,281,318

Forecast Cash flow Statement (Year ending 30 June)

Auckland Regional Holdings (parent)

(\$000's)

Operating Cashflow

	FY2010 Forecast	FY2011 Plan Yr 1	FY2012 Plan Yr 2	FY2013 Plan Yr 3	FY2014 Plan Yr 4	FY2015 Plan Yr 5	FY2016 Plan Yr 6	FY2017 Plan Yr 7	FY2018 Plan Yr 8	FY2019 Plan Yr 9	FY2020 Plan Yr 10	Total 10 years
POAL Dividends	22,326	15,000	18,000	20,000	22,300	23,800	24,324	24,859	25,406	25,965	26,536	226,188
Investment Property Income	8,406	5,618	13,330	41,739	17,512	11,030	49,790	12,818	47,849	16,133	29,700	245,518
NZ Short-Term Cash Income	757	631	90	207	138	136	230	182	-	1,168	1,395	4,178
Interest on bank accounts	1,476	110	61	61	61	61	61	61	61	61	61	660
Investment Management Costs	(1,444)	(1,838)	(1,648)	(1,566)	(1,594)	(1,578)	(1,585)	(1,634)	(1,678)	(1,743)	(1,811)	(16,674)
Investment Property Operating Expenses	(4,341)	(4,277)	(6,808)	(6,287)	(6,769)	(5,596)	(7,318)	(5,808)	(6,760)	(6,435)	(6,510)	(62,567)
Investment Property Remediation Costs	9,857	(2,716)	(2,732)	(3,294)	(696)	(7,661)	(15,409)	-	(3,529)	-	-	(36,036)
Administration	(2,258)	(2,383)	(2,436)	(2,489)	(2,544)	(2,600)	(2,657)	(2,716)	(2,775)	(2,836)	(2,899)	(26,335)
Movement in Working Capital related to operating activities	(192)											
Net Operating Cashflow	34,587	10,144	17,857	48,370	28,409	17,593	47,436	27,763	58,574	32,312	46,474	334,932

Cashflow from Investing Activities

Sale of Investment Property	9,700	-	-	-	-	-	-	-	-	-	-	-
Capitalised Management and Investigation Charges	(264)	-	-	-	-	-	-	-	-	-	-	-
Capitalised Property Costs	(16,929)	(45,090)	(26,999)	(9,701)	(6,857)	(7,528)	(18,584)	(15,444)	(6,159)	(5,285)	(3,788)	(145,435)
Additional equity investment in POAL	(40,000)	-	-	-	-	-	-	-	-	-	-	-
POAL Loan - principal	(10,000)	10,000	-	-	-	-	-	-	-	-	-	10,000
Operational Capex	(9)	(30)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(111)
Movement in working capital related to investing activities	(81)	-	-	-	-	-	-	-	-	-	-	-
Increase (repayment) of Advances	-	(3,000)	-	3,000	-	-	-	-	-	-	-	-
Net Investing Cashflow (before investment in DFA)	(57,583)	(38,120)	(27,008)	(6,710)	(6,866)	(7,536)	(18,593)	(15,453)	(6,168)	(5,294)	(3,797)	(135,546)
Realising (investing) in DFA portfolio	76,568	20,476	60,020	3,068	22,722	24,181	2,027	8,410	-	-	-	140,904
Net Investing Cashflow	18,985	(17,644)	33,011	(3,642)	15,855	16,645	(16,566)	(7,043)	(6,168)	(5,294)	(3,797)	5,358

Cashflow from Financing and Distribution Activities

General ARC Distributions	(75,503)	(54,826)	(47,022)	(40,190)	(42,389)	(34,238)	(28,703)	(22,886)	(24,974)	(16,821)	(38,126)	(350,174)
Legacy Grant Distributions	(16,556)	(21,728)	(3,847)	(4,538)	(1,875)	-	-	-	-	-	-	(31,987)
Total LTFP Distributions	(92,058)	(76,554)	(50,869)	(44,728)	(44,264)	(34,238)	(28,703)	(22,886)	(24,974)	(16,821)	(38,126)	(382,161)
Net Financing and Distribution Cashflow	(92,058)	(76,554)	(50,869)	(44,728)	(44,264)	(34,238)	(28,703)	(22,886)	(24,974)	(16,821)	(38,126)	(382,161)
Net Cash Inflow / (Outflow)	(38,486)	(84,054)	-	-	-	-	2,166	(2,166)	27,432	10,198	4,551	(41,872)

Opening Cash and NZ Short-term Cash Investments	127,040	88,554	4,500	4,500	4,500	4,500	4,500	6,666	4,500	31,932	42,130	88,554
Closing Cash and NZ Short-term Cash Investments	88,554	4,500	4,500	4,500	4,500	4,500	6,666	4,500	31,932	42,130	46,681	46,681
Closing DFA	219,517	210,637	160,489	169,001	158,074	144,794	153,424	156,183	167,843	180,373	193,839	193,839
Closing Cash & Fund Investments	308,071	215,137	164,989	173,501	162,574	149,294	160,090	160,683	199,775	222,503	240,520	240,520

Appendix B: Glossary

ACVL	Americas Cup Village Limited
ARC	Auckland Regional Council
ARH	Auckland Regional Holdings
ARTA	Auckland Regional Transport Authority
ATA	Auckland Transition Agency
Auckland City	Auckland City Council
CCO	Council-Controlled Organisation
DFA	Diversified Financial Assets
IA	Infrastructure Auckland
IRD	Inland Revenue Department
LTCCP	Long-Term Council Community Plan
LTFP	Long-Term Funding Plan
NDSL	Northern Disposal Systems Limited
POAL	Ports of Auckland Limited
PRCU	Port Related Commercial Undertaking
RCD	Registered Certificates of Deposit
Sea+City	Sea + City Projects Limited
The Act	Government (Auckland) Amendment Act 2004