

AUCKLAND REGIONAL HOLDINGS

CHAIR'S REPORT

For the January – March 2009 Quarter

The impact of the international recession continues to adversely affect ARH's overall portfolio in every asset class.

Declining container volumes were recorded at Ports of Auckland. This quarter's volumes were down 7.4% compared to the same period last year. ARH and the Auckland City Council as co-investors in the public works in the Wynyard Precinct are committed to delivering the upfront high quality public amenity infrastructure. ARH has rephased its leasing strategy to align with real market opportunities that ensure the public and private developments are well integrated, and amenity quality is not compromised.

The depressed world economy has continued to impact on ARH's global equities and bonds. A net unrealised \$7.4 million loss for the quarter was posted in the Diversified Financial Assets Portfolio (DFA). The New Zealand Short-term Cash Portfolio returns during the quarter reflected the ongoing sharp falls in New Zealand interest rates. The Short-term Cash Portfolio of \$146.3 million provides certainty of ARH liquidity over the next 18 months.

From 1 July 2004 to 31 March 2009, ARH has distributed \$470.2 million to the Auckland Regional Council (ARC), predominantly for transport and stormwater programmes.

The Auckland region's need for funding of transport and stormwater programmes has seen the \$470.2 million over the last five years being funded 59% from ARH's capital and the balance from ARH's income. ARH is unable to sustain high levels of distributions to the Auckland Regional Council (ARC) solely from income in present economic circumstances. ARH's Draft 2009-2019 Long-term Funding Plan (LTFP) indicates that 50% of future distributions to the ARC must be funded from ARH's capital.

ARH total portfolio return

For the January to March 2009 quarter, ARH had a gross revenue budget of \$18.5 million. The actual for the period was a loss of \$2.6 million.

	Actual Quarter Ended 31-Mar-09 \$000	Budget Quarter Ended 31-Mar-09 \$000	Actual YTD Ended 31-Mar-09 \$000	Budget YTD Ended 31-Mar-09 \$000	Budget Year Ending 30-Jun-09 \$000
Revenue					
<u>NZ Equity – Non-Listed</u>					
POAL Dividends ¹	-	\$6,182	\$7,190	\$12,248	\$12,248
<u>NZ Property</u>					
Investment Property Income	\$2,434	\$2,274	\$9,190	\$8,042	\$10,386
Investment Property Revaluation ²	-	-	(\$45,733)	(\$2,812)	(\$5,577)
<u>DFA</u>					
Interest, Dividends & Gains	(\$7,170)	\$7,313	(\$43,953)	\$21,458	\$27,920
<u>NZ Short-Term Cash</u>					
Interest	\$2,091	\$2,671	\$11,098	\$10,598	\$12,548
Total	(\$2,645)	\$18,440	(\$62,208)	\$49,534	\$57,525

¹ Does not include any potential unrealised capital gains or losses on ARH's investment in POAL (NZ Equity (Non-listed)) which are not recognised as revenue under New Zealand financial reporting standards.

² The fair value of the investment property was assessed by external valuer at 31 December 2008 and will be assessed again at 30 June 2009. Therefore any potential unrealised capital gains or losses on the investment property after 31 December 2008 have not been yet been recognised.

Ports of Auckland Limited (POAL) – New Zealand Equity (Non-Listed)

As trade tightened around the world, lower container volumes were recorded with 193,882 TEUs³ for the three months ended 31 March 2009, down 7.4% compared to the same period last year. This was despite in March 2009 a 5.0% year-on-year increase in full export containers, and international cruise ship calls held steady at 43 calls for the quarter, compared to 44 for the same quarter last year. Imported vehicles were down 54.4% (to 19,651 units) compared to the same quarter last year and total ship calls numbered 406, down from 438. The drop follows record high container volumes recorded at the country's largest container port between July and December 2008. POAL has a range of cost-cutting measures in place and is gearing itself to make further changes. It is also undergoing a capital structure review.

During the quarter, the proposal for POAL and Port of Tauranga (POT) to combine their container business was not taken up by POT.

New Zealand Property

During the quarter, media commentary on developments in trouble around Auckland because of the downturn, and inclusion of the Sea+City project within Wynyard Quarter in the list, left the impression that the development had come to a halt. This impacted on a wide range of stakeholders and their confidence. Significant effort was put into reversing this incorrect perception and reassuring interested parties that the project will deliver a steady and carefully-phased programme of public works. Opening the waterfront and providing public space along Jellicoe Street and North Wharf is the first important step.

To adjust to the current market and nurture revenue streams, some projects which do not impact on revenue could be deferred and alternative lease arrangements are being considered. Existing as well as shorter-term tenants continue to provide rental income. There has been a strong focus on the commercial opportunities provided by the marine industry within the Wynyard Quarter which now has a long-term base and room to expand. Sea+City Projects Limited is working closely with the local marine businesses and seeking support to develop a specialised marine refit cluster which would increase New Zealand's world ranking for such facilities. If successful, this initiative has the potential to bring vitality, jobs and revenue to the area, city and region.

Sea+City Projects is now appropriately resourced with a team of high calibre personnel from both public and private sectors with the right skill base to drive the project forward.

The 18-hectare landholding within Wynyard Quarter is one of the region's most significant urban and waterfront spaces. It represents an exceptional opportunity to deliver both social and economic benefits by fostering existing marine and fishing industries while opening up the waterfront for greater public access and enjoyment.

Diversified Financial Assets Portfolio (DFA)

Continuing volatility in financial markets was again reflected in the DFA which declined a further \$7.4 million in the quarter ended 31 March 2009. With arising requirements to allocate funding to alternative priorities, ARH has initiated a review of a range of possible DFA scenarios and the implications of any change. It is also reviewing whether its strategic asset allocation remains appropriate in the current declining and uncertain economy.

³ Twenty-foot Equivalent Units

New Zealand Short-term Cash Portfolio

There has been an unprecedented decrease in New Zealand's official cash rate over the last year, with it being reduced to 3% in March 2009 and further reduced to 2.5% on 30 April 2009. Over the quarter this asset class returned 1.27% with revenue for the quarter of \$2 million. At the end of March 2009, \$146.3 million was held in the New Zealand short-term cash portfolio, of which in the 3 months to 30 June 2009, \$44.5 million is expected to be distributed to the ARC.

Summary and outlook

The economic downturn and financial uncertainty will continue to have an impact on all asset classes in ARH's investment portfolio, and consequently their revenue. Although there is some indication of how the decline in returns will affect ARH's short-term funding capability, there remains great uncertainty about the effects of the recession in the medium to long-term.

Auckland Regional Holdings has produced a draft Long-term Funding Plan for the 2009-2019 period. Assumptions in the plan are under constant review because of the current global economic environment.

The level of annual distributions delivered to the ARC in the past four years is not sustainable. Over the last five years ARH's distributions to the ARC were funded 59% from ARH capital and the balance from ARH's income. ARH's Draft 2009-2019 LTFP would see 50% of future distribution funded from capital.

ARH's major focus is to ensure that, as custodian of a substantial regional portfolio of assets, the asset base is secure and the portfolio remains sustainable in the long term.

Judith Bassett
Chair