



Auckland Regional
Holdings

INTERIM FINANCIAL STATEMENTS

For the Six-Month Period Ended 31 December 2006

(UNAUDITED)

AUCKLAND REGIONAL HOLDINGS

Interim Financial Statements

For the Six-Month Period Ended 31 December 2006

The Board is pleased to present the third set of interim financial statements of Auckland Regional Holdings and Group consolidating Ports of Auckland Limited, America's Cup Village Limited and Northern Disposal Systems Limited for the six-month period ended 31 December 2006.

These financial statements have been prepared in accordance with the Financial Reporting Act 1993 and New Zealand International Financial Reporting Standards.

The Board of Auckland Regional Holdings accepts responsibility for the preparation of the financial statements and the judgements used in them. The Board of Auckland Regional Holdings accepts responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board of Auckland Regional Holdings, the financial statements on pages 4 to 31 fairly reflect the financial position of Auckland Regional Holdings as at 31 December 2006 and its financial performance and cash flows for the six-month period ended 31 December 2006.



Judith Bassett
Chair
20 March 2007



Kerry Stotter
Assurance and Risk Committee Chair
20 March 2007

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AUCKLAND REGIONAL HOLDINGS
INCOME STATEMENT
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

		Group 6 Months to 31 December 2006	Group 6 Months to 31 December 2005	ARH 6 Months to 31 December 2006	ARH 6 Months to 31 December 2005	ARH Budget 6 Months to 31 December 2006
	Note	\$000	\$000	\$000	\$000	\$000
Revenue	1	101,665	103,451	31,264	152,874	28,063
Other income	2	523	68	0	1	0
Share of profit from associates		673	711	0	0	0
Total revenue		102,861	104,230	31,264	152,875	28,063
Expenses (excluding finance costs)	3	59,336	51,659	3,491	1,379	4,323
Finance costs		11,474	4,637	0	0	0
Net profit before tax		32,051	47,934	27,773	151,496	23,740
Income tax expense		4,794	10,308	0	0	0
Net profit after tax and before distributions		27,257	37,626	27,773	151,496	23,740
Distributions to the ARC	4	26,592	13,700	26,592	13,700	
Net profit after distributions		665	23,926	1,181	137,796	

The Statement of Accounting Policies (Pages 9 - 17) and the Notes to the Financial Statements (Pages 18 - 31) form an integral part of these Financial Statements.

AUCKLAND REGIONAL HOLDINGS
STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

		Group 6 Months to 31 December 2006	Group 6 Months to 31 December 2005	ARH 6 Months to 31 December 2006	ARH 6 Months to 31 December 2005
	Note	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Equity at beginning of the period	10	1,058,965	1,033,425	1,262,429	1,157,980
Movement in minority interest	11	0	(72,404)	0	0
Cash flow hedges gain / (loss) taken to equity	9	1,290	186	0	0
Available-for-sale investments * gain / (loss) taken to equity	9	1,740	(1,450)	(213)	(100,955)
Net income recognised directly in equity		3,030	(73,668)	(213)	(100,955)
Net profit after distributions		665	23,926	1,181	137,796
Total recognised income and expenses for the period		3,695	(49,742)	968	36,841
Equity at end of the period		1,062,660	983,683	1,263,397	1,194,821

*** Available-for-Sale Investments**

To comply with New Zealand International Financial Reporting Standards, ARH's equity investments in subsidiary companies have been classified as 'Available-for-sale financial assets' by default. However, ARH has no intention of selling these investments.

AUCKLAND REGIONAL HOLDINGS
BALANCE SHEET - CONSOLIDATED GROUP
AS AT 31 DECEMBER 2006

		Group 31 December 2006	Group 31 December 2005	Group 30 June 2006
	Note	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Current Assets				
Cash and cash equivalents		6,943	8,039	3,851
Inventories		1,663	1,499	1,366
Trade and other receivables		24,426	19,807	17,816
Current tax assets		3,016	0	3,732
Derivative financial instruments		0	50	1,957
Investments and other financial assets	5	532,728	106,246	136,449
Total Current Assets		568,776	135,641	165,171
Non-Current Assets				
Investment properties		263,001	201,942	261,337
Property, plant and equipment		678,934	635,130	654,430
Intangible assets	7	48,503	47,588	48,511
Investments accounted for using the equity method	6	10,544	10,603	10,832
Derivative financial instruments		2,916	739	851
Investments and other financial assets	5	27,684	467,814	435,570
Total Non-Current Assets		1,031,582	1,363,816	1,411,531
Total Assets		1,600,358	1,499,457	1,576,702
Current Liabilities				
Interest bearing liabilities		0	0	1,170
Trade and other payables		16,119	13,754	16,699
Deferred income		18	0	66
Provisions		8,373	9,389	8,732
Current tax liabilities		0	3,471	0
Derivative financial instruments		289	164	0
ARC distributions payable	4	79,757	72,428	64,717
Total Current Liabilities		104,556	99,206	91,384
Non-Current Liabilities				
Interest bearing liabilities		342,544	282,965	306,429
Provisions		2,698	2,308	2,658
Deferred tax liabilities		51,797	47,498	50,596
Derivative financial instruments		0	646	157
ARC distributions payable	4	36,103	83,151	66,513
Total Non-Current Liabilities		433,142	416,568	426,353
Total Liabilities		537,698	515,774	517,737
Net Assets		1,062,660	983,683	1,058,965
Public Equity				
Reserves	9	2,920	(1,102)	(110)
Retained earnings	8	1,059,740	984,785	1,059,075
Public Equity		1,062,660	983,683	1,058,965

The Statement of Accounting Policies (Pages 9 - 17) and the Notes to the Financial Statements (Pages 18 - 31) form an integral part of these Financial Statements.

AUCKLAND REGIONAL HOLDINGS
BALANCE SHEET - AUCKLAND REGIONAL HOLDINGS
AS AT 31 DECEMBER 2006

		ARH 31 December 2006	ARH 31 December 2005	ARH 30 June 2006
	Note	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Current Assets				
Cash and cash equivalents		144	1,116	254
Trade and other receivables		14,809	13,507	14,149
Investments and other financial assets	5	532,728	106,246	136,449
Total Current Assets		547,681	120,869	150,852
Non-Current Assets				
Property, plant and equipment		131	190	158
Intangible assets	7	9	5	12
Investments and other financial assets	5	855,226	1,250,482	1,265,920
Total Non-Current Assets		855,366	1,250,677	1,266,090
Total Assets		1,403,047	1,371,546	1,416,942
Current Liabilities				
Trade and other payables		23,790	21,146	23,283
ARC distributions payable	4	79,757	72,428	64,717
Total Current Liabilities		103,547	93,574	88,000
Non-Current Liabilities				
ARC distributions payable	4	36,103	83,151	66,513
Total Non-Current Liabilities		36,103	83,151	66,513
Total Liabilities		139,650	176,725	154,513
Net Assets		1,263,397	1,194,821	1,262,429
Public Equity				
Reserves	9	34,476	(13,858)	34,689
Retained earnings	8	1,228,921	1,208,679	1,227,740
Public Equity		1,263,397	1,194,821	1,262,429

The Statement of Accounting Policies (Pages 9 - 17) and the Notes to the Financial Statements (Pages 18 - 31) form an integral part of these Financial Statements.

AUCKLAND REGIONAL HOLDINGS
CASH FLOW STATEMENT
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

		Group 6 Months to 31 December 2006	Group 6 Months to 31 December 2005	ARH 6 Months to 31 December 2006	ARH 6 Months to 31 December 2005
	Note	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Cash Flows from Operating Activities					
<u>Cash was received from:</u>					
Receipts from customers		87,244	90,374	0	0
Realised gains on foreign exchange transactions		731	0	0	0
Dividends received		1,517	1,610	10,866	135,901
Interest received		183	520	15	197
Income tax received		0	4	0	0
		89,675	92,508	10,881	136,098
<u>Cash was paid to:</u>					
Payments to suppliers and employees		60,209	54,402	3,922	1,835
Realised losses on foreign exchange transactions		0	320	0	0
Resident withholding tax paid		1	2	0	0
Income tax paid		4,532	6,251	0	0
Interest paid		10,841	5,298	0	0
		75,583	66,273	3,922	1,835
Net Cash Flows from Operating Activities	15	14,092	26,235	6,959	134,263
Cash Flows from Investing Activities					
<u>Cash was received from:</u>					
Withdrawals from portfolio investments		37,800	158,636	37,800	158,636
Sale of property, plant and equipment		758	183	0	1
Repayment of loans from related parties		650	300	0	0
Advance from subsidiaries		0	0	1,050	0
		39,208	159,119	38,850	158,637
<u>Cash was paid to:</u>					
Deposits to portfolio investments		3,849	136,000	3,848	136,000
Purchase of property, plant and equipment		34,197	27,328	9	171
Purchase of intangible assets		374	715	0	0
Purchase of investment properties		2,009	1,458	0	0
Payments for interest in joint venture partnership		247	0	0	0
Repayment of advances from subsidiaries		0	0	100	0
Loans to related parties		2,400	0	0	0
Purchase of POAL shares		0	107,532	0	107,532
Capitalised POAL takeover costs		0	138	0	138
		43,076	273,171	3,957	243,841
Net Cash Flows from Investing Activities		(3,868)	(114,052)	34,893	(85,204)
Cash Flows from Financing Activities					
<u>Cash was received from:</u>					
Proceeds from borrowings		36,000	499,054	0	0
		36,000	499,054	0	0
<u>Cash was paid to:</u>					
Repayment of borrowings		0	361,376	0	0
Distributions to the ARC	4	41,962	49,464	41,962	49,464
		41,962	410,840	41,962	49,464
Net Cash Flows from Financing Activities		(5,962)	88,214	(41,962)	(49,464)
Total Net Cash Flows for the period		4,262	397	(110)	(405)
Cash and cash equivalents at beginning of the period		2,681	7,642	254	1,521
Cash and cash equivalents at end of the period		6,943	8,039	144	1,116

The Statement of Accounting Policies (Pages 9 - 17) and the Notes to the Financial Statements (Pages 18 - 31) form an integral part of these Financial Statements.

Reporting Entity and Principal Activity

Auckland Regional Holdings (ARH) is a profit-orientated statutory investment management entity. ARH was established on 1 July 2004 with all assets, liabilities and obligations, other than transport and stormwater grant liabilities, vested from Infrastructure Auckland pursuant to the Local Government (Auckland) Amendment Act 2004 (LGAAA04). The principal functions of ARH are to:

- (a) own, directly or indirectly, and manage assets (including funds) in the long-term interests of the Auckland region,
- (b) provide funds to the Auckland Regional Council (ARC) in accordance with ARH's long-term funding plan prepared under section 21 of the LGAAA04;
- (c) make land transport assets available to assist the Auckland Regional Transport Authority (ARTA) to achieve ARTA's objective, and
- (d) undertake such other functions as are given to it by the LGAAA04 or any other Act, or are authorised by its statement of intent.

These financial statements consolidate the results of ARH (the parent entity) and its subsidiary companies, including their subsidiaries, associates and joint ventures (referred to as "the ARH Group" or "the Group"). ARH's subsidiary companies include:

- Ports of Auckland Limited (POAL) - 100% shareholding,
- America's Cup Village Limited (ACVL) - 100% shareholding, and
- Northern Disposal Systems Limited (NDSL) - 100% shareholding.

Basis of Preparation

These interim consolidated financial statements of the ARH Group are for the six-month period ended 31 December 2006. They have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand International Accounting Standard (NZ IAS) 34 on Interim Financial Reporting, and as this is the first set of financial statements prepared under New Zealand International Financial Reporting Standards (NZ IFRS), they also comply with NZ IFRS 1 covering First-time Adoption of NZ IFRS. The Group changed its accounting policies on 1 July 2006 to comply with NZ IFRS with 1 July 2005 as the date of transition.

These interim financial statements have been presented in a condensed format and include significant statements and note disclosures only, in accordance with the standards for interim reporting. The first set of complete annual financial statements to be reported under NZ IFRS will be for the year ending 30 June 2007, and these will include full note disclosures in accordance with NZ IFRS.

ARH's consolidated financial statements had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS) until 30 June 2006. NZ FRS differs in certain respects from NZ IFRS. When preparing the December 2006 interim consolidated financial statements, ARH has amended certain accounting and valuation methods applied in the previous NZ FRS financial statements, relative to the comparative figures for the six-month period ended 31 December 2005, to comply with NZ IFRS. The policies set out below have been consistently applied to all the periods presented with the exception of financial instruments. The group has taken the exemption under NZ IFRS 1 to only apply NZ IAS 32 and NZ IAS 39 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Group's equity and net surplus are given in note 17.

The financial statements have been prepared on the basis of historical cost, modified to include the revaluation of certain assets.

Particular Accounting Policies

The following particular accounting policies, which materially affect the measurement of profit and the financial position, have been applied:

(a) Principles of Consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The assets, liabilities and contingent liabilities of the subsidiary are measured at their fair value at the date of acquisition, irrespective of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly to the Income Statement in the period of acquisition.

In preparing the consolidated financial statements, all transactions, balances and unrealised profits and losses on transactions between group entities are eliminated.

ii) POAL Associates

Associates are all entities over which POAL has significant influence but not control, generally evidenced by a holding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. POAL's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

POAL's share of its associates post-acquisition profits or losses are recognised in the Income Statement, and its share of post acquisition movements in reserves are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment in the consolidated financial statements.

When POAL's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, POAL does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of POAL's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by POAL.

(iii) POAL Joint ventures

Jointly controlled entities

The interest in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of the profits or losses of the jointly controlled entity is recognised in the Income Statement, and the share of movements in reserves is recognised in reserves in the Balance Sheet.

Profits or losses on transactions establishing the jointly controlled entity and transactions with the joint venture are eliminated to the extent of the POAL's ownership interest until such time as they are realised by the jointly controlled entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). These financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances - POAL

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges.

(d) Revenue recognition

Revenue is recognised as follows:

(i) Sales of services

Sales of services are recognised at fair value in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Rental income

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Income tax

ARH is generally exempt from paying income tax in New Zealand; however ARH's subsidiaries are tax-payers. The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Leases

(i) The Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

AUCKLAND REGIONAL HOLDINGS
STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

(ii) The Group is the lessor

Assets leased to third parties under operating leases are included within investment properties and property, plant and equipment in the Balance Sheet. Leased property, plant and equipment is depreciated over its expected useful lives on a basis consistent with non-leased property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the Balance Sheet.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value, and are subsequently measured at amortised cost, less provision for doubtful debts.

The ability to collect trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(j) POAL Inventories

Raw material and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Distributions to the Auckland Regional Council (ARC)

ARH recognises expenditure for distributions to the ARC in the Income Statement at the time either a cash distribution has been made, or when a funding request or reliable forecast requirement for the current financial year has been provided by the ARC to ARH for amounts in accordance with the current operative Long Term Funding Plan, or when the ARH Directors deem there is a present obligation that can be reliably estimated which may arise due to Long Term Funding Plan policies.

(l) Investments and other financial assets

From 1 July 2005:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature and purpose for which the investments were acquired. The Group determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

AUCKLAND REGIONAL HOLDINGS
STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

Classification

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the Group. The Group's policy is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date, otherwise they are classified as non-current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Balance Sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available for sale financial assets, comprising equity securities, are non derivatives financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Group intends to dispose of the investment within 12 months of the balance sheet date.

Policy

Purchases and sales of assets are recognised at the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Income Statement in the period in which they arise.

Equity shares held by the Group, which are classified as being available-for-sale financial assets, are stated at fair value less impairment. Unrealised gains and losses arising from changes in the fair value of the shares classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When shares classified as available-for-sale are sold, the accumulated fair value adjustments are included in the Income Statement.

The fair values of quoted investments are based on current bid prices.

(m) POAL Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. POAL designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedges).

AUCKLAND REGIONAL HOLDINGS
STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

At the inception of the transaction, POAL documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. POAL also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

POAL applies only fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of the interest rate swaps hedging fixed rate borrowing is recognised in the Income Statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the Income Statement within other gains / (losses) net. Changes in the fair value of the hedge fixed rate borrowing attributable to interest rate risk are recognised in the Income Statement within finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the ineffective interest method is used is amortised to the Income Statement over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the Cash Flow Hedge Reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement within other gains / (losses) - net.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the ineffective portion of the interest rate swaps hedging variable rates of borrowings is recognised in the Income Statement within finance costs. The gain or loss relating to the effective portion of forward exchange contract hedging export sales is recognised in the Income Statement within sales. However, when the forecast transaction that is hedged results in the recognition of a non financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. The deferred amounts are ultimately recognised in the costs of goods sold in the case of inventory, or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement within other gains / (losses) - net.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

(n) Property, plant and equipment

Land, buildings and wharves (except for investment properties) are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings and wharves. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Pavements are stated at deemed cost based on a valuation performed as at 30 June 2006 less depreciation. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

AUCKLAND REGIONAL HOLDINGS
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FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings and wharves are credited to other reserves in equity. To the extent that the increase reverses a decrease previously recognised in the Income Statement, the increase is first recognised in the Income Statement. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Income Statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

- Buildings	30 - 50 years
- Wharves	50 - 100 years
- Plant and machinery	5 - 20 years
- Pavement	25 - 85 years
- Other equipment	2 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying value is written down immediately, to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement. When revalued assets are sold, the Group's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(o) POAL Investment properties

Investment properties are held for long term rental yields and are not occupied by POAL. Investment properties are carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are recorded in the Income Statement as part of other income.

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill on acquisitions of joint ventures is included in investments in joint ventures. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units represents the Group's investment in the operation by each primary reporting segment.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

AUCKLAND REGIONAL HOLDINGS
STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

(r) POAL Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless POAL has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) POAL Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(t) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in trade and other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) POAL Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(v) Goods and Services Tax (GST)

Where GST is payable or recoverable, revenue and expenditure is stated net of GST. Any irrecoverable GST input tax on expenditure is recognised as part of the related asset or expense. Where GST is payable or recoverable, items in the Balance Sheet are stated net of GST with the exception of receivables and payables which are stated with GST included. In the Cash Flow Statement, all cash payments and receipts are inclusive of GST, where applicable.

(w) Comparative figures

Comparative figures are, where appropriate, reclassified so as to be consistent with the figures presented for the current period.

Transition to NZ IFRS

Application of NZ IFRS 1

The Group's financial statements for the six-month period ended 31 December 2006 are the first interim financial statements that comply with NZ IFRS. These financial statements have been prepared as described in the basis of preparation. The Group has applied NZ IFRS 1 in preparing these consolidated financial statements.

The NZ IFRS transition date for the ARH group is 1 July 2005; accordingly the opening NZ IFRS balance sheet is prepared as at that date.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

The Group has elected to apply the following optional exemptions from full retrospective application:

(a) Business combinations exemption

ARH and its Subsidiaries have applied the business combinations exemption under NZ IFRS 1. Business combinations that took place prior to 1 July 2005 have not been restated.

(b) Fair value as deemed cost exemption

POAL has elected to measure certain items of property, plant and equipment at fair value as at 1 July 2005. The application of this exemption is detailed in note 17.

(c) Exemption from restatement of comparatives for NZ IAS 32 and NZ IAS 39

The Group elected to apply this exemption. It applies previous NZ FRS rules to derivatives, financial assets, financial liabilities and to hedging relationships for the 2005 comparative information. The adjustments required for differences between NZ FRS and NZ IAS 32 and NZ IAS 39 are determined and recognised at 1 July 2005. The adjustments are detailed in note 17.

The Group has applied the following mandatory exceptions from retrospective application:

(d) Hedge accounting exception

POAL has adopted hedge accounting from 1 July 2005 only if the hedge relationship meets all the hedge accounting criteria under NZ IAS 39. The application of this exception at the opening balance sheet date of 1 July 2005 is detailed in note 17.

(e) Estimates exception

Estimates under NZ IFRS at 1 July 2005 are required to be consistent with estimates made for the same date under NZ IFRS, unless there is evidence that those estimates were in error.

The reconciliations in note 17 provide a quantification of the effect of the transition to NZ IFRS on the net profit and equity.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
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	Group 6 Months to 31 December 2006	Group 6 Months to 31 December 2005	ARH 6 Months to 31 December 2006	ARH 6 Months to 31 December 2005
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
1. REVENUE				
Sales and rental income	81,293	86,202	0	0
Interest income	19,913	16,666	20,398	16,973
Dividend income	459	583	10,866	135,901
	101,665	103,451	31,264	152,874

2. OTHER INCOME

Gain on sale of property, plant and equipment	523	68	0	1
	523	68	0	1

3. EXPENSES

ARH expenses include costs incurred for the Waterfront project regarding development of plans for the Wynyard precinct properties, for which it will acquire direct ownership. Once this project is implemented, these costs will capitalised in accordance with accounting standards, and this is expected to occur by 30 June 2007. These expenses also include GST which will be recoverable once the project is implemented.

4. DISTRIBUTIONS TO THE ARC

Opening balance	131,230	191,343	131,230	191,343
Plus distributions recognised:				
Distributions for grants	0	(99)	0	(99)
General distributions	26,592	13,799	26,592	13,799
Total distributions recognised as per the Income Statement	26,592	13,700	26,592	13,700
Less distributions paid out:				
Distributions for grants	(15,370)	(35,518)	(15,370)	(35,518)
General distributions	(26,592)	(13,946)	(26,592)	(13,946)
Total cash distributions paid as per the Cash Flow Statement	(41,962)	(49,464)	(41,962)	(49,464)
Closing balance - Distributions payable	115,860	155,579	115,860	155,579
Incorporated in:				
ARC distributions payable - Current	79,757	72,428	79,757	72,428
ARC distributions payable - Non Current	36,103	83,151	36,103	83,151
Total distributions payable to the ARC	115,860	155,579	115,860	155,579

Distributions for Grants

Distributions for grants relate to the ARH's Board commitment in the 2005 Financial Year to provide ongoing funding to the ARC for grants made by the former Infrastructure Auckland, which are primarily to local authorities. Under the Local Government (Auckland) Amendment Act 2004, the liabilities for these grants were vested in the ARC and ARTA.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

	Group 31 December 2006	Group 31 December 2005	ARH 31 December 2006	ARH 31 December 2005
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
5. INVESTMENTS AND OTHER FINANCIAL ASSETS				
Investments and other financial assets - Current				
Portfolio investments at fair value	532,728	106,246	532,728	106,246
	532,728	106,246	532,728	106,246
Investments and other financial assets - Non-Current				
Portfolio investments at fair value	0	443,590	0	443,590
<u>ARH Investments in Subsidiary Companies</u>				
Ports of Auckland Limited	0	0	797,400	748,500
America's Cup Village Limited	0	0	34,740	35,341
Northern Disposal Systems Limited	0	0	23,086	23,051
	0	0	855,226	806,892
<u>POAL Shares in Listed Companies</u>				
Northland Port Corporation (NZ) Limited	27,684	24,224	0	0
	27,684	467,814	855,226	1,250,482

Auckland Regional Holdings Investments in subsidiary companies	Opening Balances as at 1 July 2006	Investments	Revaluation to Fair Value	Value as at 31 December 2006
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Ports of Auckland Limited	797,400	0	0	797,400
America's Cup Village Limited	34,982	0	(242)	34,740
Northern Disposal Systems Limited	23,057	0	29	23,086
Total	855,439	0	(213)	855,226

Auckland Regional Holdings Investments in subsidiary companies	Opening Balances as at 1 July 2005	Investments	Revaluation to Fair Value	Value as at 31 December 2005
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Ports of Auckland Limited *	747,781	101,421	(100,702)	748,500
America's Cup Village Limited	35,626	0	(285)	35,341
Northern Disposal Systems Limited	23,019	0	32	23,051
Total	806,426	101,421	(100,955)	806,892

Ports of Auckland Limited (POAL)

* At 1 July 2005, ARH owned 88.06% of POAL. The acquisition of the remaining 11.94% held by minority shareholders was concluded on 5 August 2005. ARH now owns 100% of POAL.

An independent valuation of ARH's equity investment in POAL was completed by PricewaterhouseCoopers as at 30 June 2006. At that date the Directors of ARH determined the fair value of the equity investment in POAL to be \$797.4m, which equates to a per share value of \$7.52. POAL paid ARH a special dividend of \$120m on 21 December 2005. For comparative purposes, the equivalent per share value prior to the payment of the special dividend is \$8.64.

As at 31 December 2006 ARH has undertaken a review of the valuation of its equity investment in POAL and concludes that there has been no impairment in the value.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

	Group 31 December 2006	Group 31 December 2005	ARH 31 December 2006	ARH 31 December 2005
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
6. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
<u>POAL</u>				
United Containers Limited	3,279	2,642	0	0
North Tugz Limited	7,265	7,961	0	0
	10,544	10,603	0	0

7. INTANGIBLE ASSETS

Computer Software	2,660	1,745	9	5
Goodwill	45,843	45,843	0	0
	48,503	47,588	9	5

Goodwill has arisen on consolidation due to the difference between the consideration paid by ARH (\$169.6m) and the net asset value (\$124.9m) of the 20% additional shareholding in Ports of Auckland Limited acquired over a series of step acquisitions from June 2005 to August 2005, concluding with 100% shareholding on 5 August 2005. Acquisition costs of \$1.16m were capitalised and also form part of goodwill.

In accordance with NZ IFRS goodwill is tested annually for impairment. No impairment losses have been recognised. Goodwill will continue to remain on the Balance Sheet in the future unless there are impairment losses.

8. RETAINED EARNINGS

Opening balance	1,059,075	960,859	1,227,740	1,070,883
Net profit for the period	665	23,926	1,181	137,796
Closing balance	1,059,740	984,785	1,228,921	1,208,679

9. RESERVES

Cash Flow Hedge Reserve

Opening balance	178	(422)	0	0
Cash flow hedges gain / (loss) taken to equity	1,290	186	0	0
Closing balance	1,468	(236)	0	0

Available-for-Sale Investments Reserve

Opening balance	(288)	584	34,689	87,097
Available-for-sale investments valuation gain / (loss) taken to equity	1,740	(1,450)	(213)	(100,955)
Closing balance	1,452	(866)	34,476	(13,858)

Total Reserves

	2,920	(1,102)	34,476	(13,858)
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Cash Flow Hedge Reserve

This reserve relates to gains or losses on a hedging instrument for a cash flow hedge that are recognised directly in equity, as described in accounting policy (m) for derivatives. Gains or losses are recognised in the Income Statement if the associated hedged transaction affects the profit and loss.

Available-for-Sale Investments Reserve

This reserve relates to the unrealised movement in the fair values of investments and other financial assets, classified by default as available-for-sale to comply with NZ IFRS. Fair value movements are recorded in equity until the investment is disposed of, or there is a permanent impairment, at which time the associated movement in equity is transferred to the Income Statement.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

10. EQUITY AT BEGINNING OF THE PERIOD

	Group 6 Months to 30 June 2006	ARH 6 Months to 30 June 2006
	<u>\$000</u>	<u>\$000</u>
Opening balance 1 January 2006	983,683	1,194,821
Net profit for the six months to 30 June 2006	74,290	19,061
Cash flow hedges gain / (loss) taken to equity	414	0
Available-for-sale investments valuation gain / (loss) taken to equity	578	48,547
Closing balance 30 June 2006 = Equity at beginning of period 1 July 2006	1,058,965	1,262,429

The above reconciliation shows the movements in equity between the closing balance of the comparative interim period at 31 December 2005 and the opening balance of the current interim period at 1 July 2006.

	Group 31 December 2006	Group 31 December 2005	ARH 31 December 2006	ARH 31 December 2005
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
11. MINORITY INTEREST				
Opening balance	0	72,404	0	0
Sale of minority shareholding to majority shareholder	0	(72,404)	0	0
Closing balance	0	0	0	0

12. CAPITAL COMMITMENTS

i) Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

Purchase of property, plant and equipment	27,899	42,183	0	0
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ii) Lease commitments: Group as lessee

Commitments for minimum lease payments in relation to non-cancellable operating leases

Not later than 1 year	255	255	65	65
Later than one year but not later than five years	144	399	97	162
	399	654	162	227

13. CONTINGENT LIABILITIES

Northern Disposal Systems Limited (NDSL)

NDSL had no contingent liabilities at 31 December 2006.

At 31 December 2005, NDSL had provided two financial assurances in the form of bank letters of credit comprising:

- (a) \$1.9m in favour of the Auckland Regional Council and Manukau City Council jointly relating to Resource Management consents obtained for the Greenmount Landfill; and
- (b) \$0.5m in favour of the Auckland Regional Council for consents obtained for the Rosedale landfill.

Following the sale of the investment in Envirowaste Services Limited (ESL) in 2001 there remain potential liabilities arising from the previous operations at the Greenmount and Rosedale landfills. All residual obligations relating to the landfills formerly owned by NDSL through its previous shareholding in ESL have subsequently been passed to ARH. These are deemed low risk with a low probability of any liability arising.

Ports of Auckland Limited (POAL)

POAL has a contingent liability as at 31 December 2006 for the balance of settlement for the acquisition of the 27.5% shareholding in United Containers Limited. When POAL is satisfied that the conditions have been met in terms of the purchase contract, the settlement balance of up to \$0.5m will be paid, either in instalments over the next one and a half years or alternatively as a lump sum at the end of the one and a half years (31 December 2005: \$0.7m).

Auckland Regional Holdings (ARH) and America's Cup Village Limited (ACVL)

At 30 June 2006 ARH and ACVL were joined as the 8th and 9th defendants respectively in an action brought by Mr Christopher Hook (the plaintiff) against various companies and individuals associated with the development of Gulf Harbour relating to events that occurred in 1997 and 1998. ARH and ACVL vigorously opposed the claim, and were advised by legal counsel that, quite apart from any defence on the merits, both ARH and ACVL would have good standing and limitation defences. The court directed the plaintiff to provide security for the costs of the initial application by the defendants to strike out the claim.

The Directors did not consider it necessary at that time, nor appropriate, to make any provision for the action other than for non-recoverable legal costs.

In March 2007 the action by Mr Christopher Hook was struck out by the court on the grounds of limitation. This confirms the Directors' view at 30 June 2006 and there is no longer any contingent liability.

At 31 December 2006, a similar action was brought by Mr Richard Phillips associated with the development of Gulf Harbour relating to events that occurred in 1997 and 1998. ARH and ACVL are vigorously opposing the claim, and have been advised by legal counsel that, quite apart from any defence on the merits, both ARH and ACVL have good standing and limitation defences. The Directors consider that it is not necessary, nor appropriate, to make any provision for the action.

Apart from those stated, there are no other contingent liabilities at 31 December 2006 (2005: nil).

14. SUBSEQUENT EVENTS

On 16 February 2007, the Directors of POAL approved an interim dividend payable to ARH of \$9m. The dividend was received by ARH on 20 February 2007.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

	Group 6 Months to 31 December 2006	Group 6 Months to 31 December 2005	ARH 6 Months to 31 December 2006	ARH 6 Months to 31 December 2005
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
15. RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit after distributions	665	23,926	1,181	137,796
Non-cash Items				
Capitalised interest income on portfolio investments	(19,748)	(16,141)	(19,748)	(16,141)
Depreciation and amortisation	8,254	7,599	37	22
Capitalised interest on loan to subsidiary	0	0	(634)	(632)
Net loss/(gain) on sale of property, plant and equipment	304	(61)	0	1
Fair value movements in derivatives	2,246	(34)	0	0
Items classified as investing / financing activities				
Capital items included in working capital movements	1,105	5,684	2	6,235
Movements in joint ventures and associates	385	316	0	0
ARC distributions recognised in the period	26,592	13,700	26,592	13,700
Movements in borrowing allocated to interest paid	115	(685)	0	0
Accrued interest included in borrowings	0	(428)	0	0
Deferrals or Accruals of Past or Future Operating Cash Receipts or Payments				
(Increase) / Decrease in trade and other receivables	(4,711)	(3,169)	(26)	(23)
(Increase) / Decrease in inventories	(297)	(155)	0	0
(Decrease) / Increase in trade and other payables	(838)	(7,950)	(444)	(6,686)
(Decrease) / Increase in provisions	(110)	(337)	(1)	(9)
Increase / (Decrease) in current income tax liability	716	4,791	0	0
(Decrease) / Increase in deferred income tax liability	(586)	(821)	0	0
Net Cash Flows from Operating Activities	14,092	26,235	6,959	134,263

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

16. SEGMENT REPORTING

Comprising the Significant Activity Operating Statements of the Group and ARH

BUSINESS SEGMENTS FOR THE SIX MONTHS TO 31 DECEMBER 2006	Total 2006 \$000	ARH 2006 \$000	POAL 2006 \$000	ACVL 2006 \$000	NDSL 2006 \$000	Eliminations 2006 \$000
Total revenue	102,861	31,264	82,700	314	104	(11,521)
Total expenses (including finance costs)	70,810	3,491	67,164	749	61	(655)
Net profit before tax	32,051	27,773	15,536	(435)	43	(10,866)
Income tax expense / (benefit)	4,794	0	4,973	(193)	14	0
Net profit after tax and before distributions	27,257	27,773	10,563	(242)	29	(10,866)
Distributions to the ARC	26,592	26,592	0	0	0	0
Net profit after distributions	665	1,181	10,563	(242)	29	(10,866)
Net Assets	1,062,660	1,263,397	550,820	34,740	23,086	(809,383)

BUSINESS SEGMENTS FOR THE SIX MONTHS TO 31 DECEMBER 2005	Total 2005 \$000	ARH 2005 \$000	POAL 2005 \$000	ACVL 2005 \$000	NDSL 2005 \$000	Eliminations 2005 \$000
Total revenue	104,230	152,875	87,452	334	119	(136,550)
Total expenses (including finance costs)	56,296	1,379	54,735	760	71	(649)
Net profit before tax	47,934	151,496	32,717	(426)	48	(135,901)
Income tax expense / (benefit)	10,308	0	10,432	(141)	17	0
Net profit after tax and before distributions	37,626	151,496	22,285	(285)	31	(135,901)
Distributions to the ARC	13,700	13,700	0	0	0	0
Net profit after distributions	23,926	137,796	22,285	(285)	31	(135,901)
Net Assets	983,683	1,194,821	491,519	35,341	23,051	(761,049)

Principal Activity

All inter-segment pricing is on an arm's length basis.

Auckland Regional Holdings' principal functions are to manage its investments in the long-term interest of the Auckland region and in accordance with sound business practice, and to distribute funds to the ARC. Refer to Reporting Entity and Principal Activity on page 9 for full details of Auckland Regional Holdings' functions.

Ports of Auckland Ltd is a port operations company in Auckland.

America's Cup Village Ltd is a property facility development company in Auckland.

Northern Disposal Systems Ltd is an investment company in Auckland.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

17. EFFECT OF TRANSITION TO NZ IFRS

Balance Sheet as at 1 July 2005 (Transition Date)

	Consolidated Group			Auckland Regional Holdings		
	NZ FRS	Effect of Transition	NZ IFRS	NZ FRS	Effect of Transition	NZ IFRS
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Current Assets						
Cash and cash equivalents	7,642	0	7,642	1,521	0	1,521
Inventories	1,342	0	1,342	0	0	0
Trade and other receivables	16,397	0	16,397	12,851	0	12,851
Current tax asset	1,558	0	1,558	0	0	0
Derivative financial instruments	0	101	101	0	0	0
Investments and other financial assets	198,955	0	198,955	198,955	0	198,955
Total Current Assets	225,894	101	225,995	213,327	0	213,327
Non-Current Assets						
Investment properties	183,596	17,045	200,641	0	0	0
Property, plant and equipment	630,104	(15,650)	614,454	34	(5)	29
Intangible assets	15,803	1,378	17,181	0	5	5
Investments accounted for using equity method	9,850	1,369	11,219	0	0	0
Derivative financial instruments	0	250	250	0	0	0
Deferred tax assets	1,046	(1,046)	0	0	0	0
Investments and other financial assets	383,795	989	384,784	1,163,800	0	1,163,800
Total Non-Current Assets	1,224,194	4,335	1,228,529	1,163,834	0	1,163,834
Total Assets	1,450,088	4,436	1,454,524	1,377,161	0	1,377,161
Current Liabilities						
Trade and other payables	20,035	70	20,105	27,838	0	27,838
Income in advance	10	0	10	0	0	0
Provisions	10,983	0	10,983	0	0	0
Derivative financial instruments	0	180	180	0	0	0
ARC distributions payable	91,972	0	91,972	91,972	0	91,972
Total Current Liabilities	123,000	250	123,250	119,810	0	119,810
Non-Current Liabilities						
Interest bearing liabilities	146,400	0	146,400	0	0	0
Provisions	2,636	0	2,636	0	0	0
Deferred tax liabilities	0	48,636	48,636	0	0	0
Derivative financial instruments	0	806	806	0	0	0
ARC distributions payable	99,371	0	99,371	99,371	0	99,371
Total Non-Current Liabilities	248,407	49,442	297,849	99,371	0	99,371
Total Liabilities	371,407	49,692	421,099	219,181	0	219,181
Net Assets	1,078,681	(45,256)	1,033,425	1,157,980	0	1,157,980
Public Equity						
Reserves	371,510	(371,348)	162	87,097	0	87,097
Retained earnings	629,363	331,496	960,859	1,070,883	0	1,070,883
Public Equity	1,000,873	(39,852)	961,021	1,157,980	0	1,157,980
Minority Interest in Ports of Auckland	77,808	(5,404)	72,404	0	0	0
Total Equity	1,078,681	(45,256)	1,033,425	1,157,980	0	1,157,980

Where an NZ IFRS adjustment results in reclassification only, this reclassification has been reflected in the NZ FRS column.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

17. EFFECT OF TRANSITION TO NZ IFRS (Continued)

Balance Sheet as at 31 December 2005 (Comparable interim period previously published under NZ FRS)

	Consolidated Group			Auckland Regional Holdings		
	NZ FRS	Effect of Transition	NZ IFRS	NZ FRS	Effect of Transition	NZ IFRS
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Current Assets						
Cash and cash equivalents	8,039	0	8,039	1,116	0	1,116
Inventories	1,499	0	1,499	0	0	0
Trade and other receivables	20,490	(683)	19,807	13,507	0	13,507
Derivative financial instruments	0	50	50	0	0	0
Investments and other financial assets	106,246	0	106,246	106,246	0	106,246
Total Current Assets	136,274	(633)	135,641	120,869	0	120,869
Non-Current Assets						
Investment properties	199,194	2,748	201,942	0	0	0
Property, plant and equipment	637,173	(2,043)	635,130	195	(5)	190
Intangible assets	40,439	7,149	47,588	0	5	5
Investments accounted for using equity method	9,067	1,536	10,603	0	0	0
Deferred tax assets	1,111	(1,111)	0	0	0	0
Derivative financial instruments	0	739	739	0	0	0
Investments and other financial assets	468,988	(1,174)	467,814	1,250,482	0	1,250,482
Total Non-Current Assets	1,355,972	7,844	1,363,816	1,250,677	0	1,250,677
Total Assets	1,492,246	7,211	1,499,457	1,371,546	0	1,371,546
Current Liabilities						
Trade and other payables	13,644	110	13,754	21,130	16	21,146
Provisions	9,389	0	9,389	0	0	0
Current tax liability	3,471	0	3,471	0	0	0
Derivative financial instruments	0	164	164	0	0	0
ARC distributions payable	72,428	0	72,428	72,428	0	72,428
Total Current Liabilities	98,932	274	99,206	93,558	16	93,574
Non-Current Liabilities						
Interest bearing liabilities	283,650	(685)	282,965	0	0	0
Provisions	2,308	0	2,308	0	0	0
Deferred tax liabilities	0	47,498	47,498	0	0	0
Derivative financial instruments	0	646	646	0	0	0
ARC distributions payable	83,151	0	83,151	83,151	0	83,151
Total Non-Current Liabilities	369,109	47,459	416,568	83,151	0	83,151
Total Liabilities	468,041	47,733	515,774	176,709	16	176,725
Net Assets	1,024,205	(40,522)	983,683	1,194,837	(16)	1,194,821
Public Equity						
Reserves	371,510	(372,612)	(1,102)	6,280	(20,139)	(13,859)
Retained earnings	652,695	332,090	984,785	1,188,557	20,123	1,208,680
Public Equity	1,024,205	(40,522)	983,683	1,194,837	(16)	1,194,821

Where an NZ IFRS adjustment results in reclassification only, this reclassification has been reflected in the NZ FRS column.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

17. EFFECT OF TRANSITION TO NZ IFRS (Continued)

Balance Sheet as at 30 June 06 (Last full year previously published under NZ FRS)

	Consolidated Group			Auckland Regional Holdings		
	NZ FRS	Effect of Transition	NZ IFRS	NZ FRS	Effect of Transition	NZ IFRS
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Current Assets						
Cash and cash equivalents	2,682	1,169	3,851	254	0	254
Inventories	1,365	1	1,366	0	0	0
Trade and other receivables	18,387	(571)	17,816	14,149	0	14,149
Current tax asset	3,732	0	3,732	0	0	0
Derivative financial instruments	0	1,957	1,957	0	0	0
Investments and other financial assets	136,449	0	136,449	136,449	0	136,449
Total Current Assets	162,615	2,556	165,171	150,852	0	150,852
Non-Current Assets						
Investment properties	257,461	3,876	261,337	0	0	0
Property, plant and equipment	656,800	(2,370)	654,430	170	(12)	158
Intangible assets	38,417	10,094	48,511	0	12	12
Investments accounted for using equity method	9,463	1,369	10,832	0	0	0
Derivative financial instruments	0	851	851	0	0	0
Investments and other financial assets	435,879	(309)	435,570	1,265,920	0	1,265,920
Total Non-Current Assets	1,398,020	13,511	1,411,531	1,266,090	0	1,266,090
Total Assets	1,560,635	16,067	1,576,702	1,416,942	0	1,416,942
Current Liabilities						
Interest bearing liabilities	0	1,170	1,170	0	0	0
Trade and other payables	16,566	133	16,699	23,247	36	23,283
Income in advance	66	0	66	0	0	0
Provisions	8,732	0	8,732	0	0	0
ARC distributions payable	64,717	0	64,717	64,717	0	64,717
Total Current Liabilities	90,081	1,303	91,384	87,964	36	88,000
Non-Current Liabilities						
Interest bearing liabilities	307,000	(571)	306,429	0	0	0
Provisions	2,657	1	2,658	0	0	0
Deferred tax liabilities	821	49,775	50,596	0	0	0
Derivative financial instruments	0	157	157	0	0	0
ARC distributions payable	66,513	0	66,513	66,513	0	66,513
Total Non-Current Liabilities	376,991	49,362	426,353	66,513	0	66,513
Total Liabilities	467,072	50,665	517,737	154,477	36	154,513
Net Assets	1,093,563	(34,598)	1,058,965	1,262,465	(36)	1,262,429
Public Equity						
Reserves	426,277	(426,387)	(110)	34,689	0	34,689
Retained earnings	667,286	391,789	1,059,075	1,227,776	(36)	1,227,740
Public Equity	1,093,563	(34,598)	1,058,965	1,262,465	(36)	1,262,429

Where an NZ IFRS adjustment results in reclassification only, this reclassification has been reflected in the NZ FRS column.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

17. EFFECT OF TRANSITION TO NZ IFRS (Continued)

Income Statement for the six months to 31 December 2005 (Comparable interim period previously published under NZ FRS)

	Consolidated Group			Auckland Regional Holdings		
	NZ FRS	Effect of Transition	NZ IFRS	NZ FRS	Effect of Transition	NZ IFRS
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Revenue	103,261	190	103,451	152,686	188	152,874
Other income	68	0	68	1	0	1
Share of profit from associates	544	167	711	0	0	0
Total revenue	103,873	357	104,230	152,687	188	152,875
Expenses (excluding finance costs)	51,167	492	51,659	1,175	204	1,379
Finance costs	4,839	(202)	4,637	0	0	0
Net profit before tax	47,867	67	47,934	151,512	(16)	151,496
Income tax expense	10,835	(527)	10,308	0	0	0
Net profit after tax and before distributions	37,032	594	37,626	151,512	(16)	151,496
Unrealised Loss on Revaluation of Subsidiary Company Investments	0	0	0	20,139	(20,139)	0
Net profit before distributions	37,032	594	37,626	131,373	20,123	151,496
Distributions to the ARC	13,700	0	13,700	13,700	0	13,700
Net profit after distributions	23,332	594	23,926	117,673	20,123	137,796

Where an NZ IFRS adjustment results in reclassification only, this reclassification has been reflected in the NZ FRS column.

AUCKLAND REGIONAL HOLDINGS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2006

17. EFFECT OF TRANSITION TO NZ IFRS (Continued)

Income Statement for the twelve months to 30 June 2006 (Last full year previously published under NZ FRS)

	Consolidated Group			Auckland Regional Holdings		
	NZ FRS	Effect of Transition	NZ IFRS	NZ FRS	Effect of Transition	NZ IFRS
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Revenue	204,268	411	204,679	189,773	403	190,176
Other income	4	56,002	56,006	0	1	1
Share of profit from associates	1,390	0	1,390	0	0	0
Total revenue	205,662	56,413	262,075	189,773	404	190,177
Expenses (excluding finance costs)	105,482	(3,949)	101,533	2,924	440	3,364
Finance costs	15,273	(79)	15,194	0	0	0
Net profit before tax	84,907	60,441	145,348	186,849	(36)	186,813
Income tax expense	17,028	148	17,176	0	0	0
Net profit after tax and before distributions	67,879	60,293	128,172	186,849	(36)	186,813
Distributions to the ARC	29,956	0	29,956	29,956	0	29,956
Net profit after distributions	37,923	60,293	98,216	156,893	(36)	156,857

Where an NZ IFRS adjustment results in reclassification only, this reclassification has been reflected in the NZ FRS column.

17. EFFECT OF TRANSITION TO NZ IFRS (Continued)

Notes to the reconciliations:

Property, plant and equipment

Under NZ IFRS the Group has elected to measure certain items of property, plant and equipment at fair value. As a result of the use of fair value as deemed cost at the date of transition to NZ IFRS, the amount in the revaluation reserve relating to these assets has been transferred to retained earnings.

Investment properties

Under NZ FRS investment properties were recorded at fair value less disposal costs. To comply with NZ IFRS an adjustment has been made to increase the recorded value of the investment properties to 100% of their fair value as determined by the independent valuer valuation.

Certain assets have been reclassified from investment properties to property, plant and equipment.

Intangible assets

i) Computer software

Software assets are reclassified as intangible assets to comply with NZ IAS 38.

ii) Goodwill

Under NZ FRS goodwill on the purchase, by ARH, of the remaining 20% of POAL was recognised in the consolidated financial statements as an intangible asset and amortised over its expected useful life (assumed to be not more than 20 years). Under NZ IFRS, goodwill is allocated to the cash-generating units acquired and tested annually for impairment. The amortisation of the goodwill for the year to 30 June 2006 has therefore been written back.

The acquisition of the 20% of POAL from minority interests occurred in steps before and after the transition to NZ IFRS. The value of POAL's net assets acquired after transition date decreased as a result of POAL's NZ IFRS conversion. Goodwill acquired on the second step of the acquisition after transition date has therefore increased.

Investments and other financial assets

Under NZ FRS the investment in Northland Port Corporation (NZ) Limited was recorded at cost. Under NZ IFRS this investment is recorded at fair value with movements being recorded in the available for sale investment revaluation reserve in equity.

Derivative financial instruments

Under NZ FRS the fair values of derivative financial instruments were disclosed in the notes to the accounts only. To comply with NZ IFRS the Group has elected to apply the exemption from restatement of comparatives for NZ IAS 32 Financial Instruments: Disclosure and presentation and NZ IAS 39 Financial Instruments: Recognition and measurement. It has therefore continued to apply the previous NZ FRS rules to derivatives, financial asset and financial liabilities and also to hedge relationships for the year ended 30 June 2005. The adjustment required for differences between previous NZ FRS and NZ IAS 32 and NZ IAS 39 have been determined and recognised at 1 July 2005.

NZ IFRS requires all derivative financial instruments, whether used as hedging instruments or otherwise, to be carried at fair value on the Balance Sheet. Fair value and cash flow hedging can only be applied when all hedge accounting criteria are met, including the requirement that the hedge is highly effective.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognised in equity in the Cash Flow Hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Certain financial derivatives do not qualify for hedge accounting. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

17. EFFECT OF TRANSITION TO NZ IFRS (Continued)

Notes to the reconciliations (continued):

Interest bearing liabilities

Under NZ FRS transaction costs relating to the establishment of POAL's new debt facility were classified as prepayments. To comply with NZ IFRS, transaction costs relating to the debt facility are offset against the respective borrowings and amortised to finance costs over the period of the debt facility.

Deferred tax

Under NZ FRS, the income tax expense was recognised based on the operating profit before taxation adjusted for permanent differences between account and taxable income.

Under NZ IFRS the application of NZ IAS 12 Income Taxes has resulted in the recognition of deferred tax liabilities on property, plant and equipment valuations, investment property valuations, derivative financial instruments and available for sale investments.

Income Statement

Certain expenditure relating to direct treasury management fees was previously offset against revenue to reflect the nature of the costs which were directly attributable to generating income. Under NZ IFRS, both revenue and expenditure are to be shown gross to reflect the true revenue and costs of doing business. Both the revenue and expenditure have been grossed up to take this into account. There has been no effect on the net profit.

AUCKLAND REGIONAL HOLDINGS DIRECTORY

Directors

Judith Bassett
Chair

Joce Jesson
Deputy Chair

Peter Hubscher

Susan Paterson
retired by rotation 31 December 2006

Kerry Stotter
Assurance & Risk Committee Chair

Paul Walbran

Management Team

Peter Casey
Chief Operating Officer

Mary Chen
Administration Co-ordinator

Thomas Kelly
Corporate and Legal Manager

Kellie Maitland
Investments and Finance Manager

Karen Musham
Business Development and
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Auditors

Deloitte

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