

AUCKLAND REGIONAL HOLDINGS

CHAIR'S REPORT

For the April-June 2009 Quarter

In the final quarter of the 2008/2009 year, there was an encouraging lift in performance of our Diversified Financial Assets Portfolio compared with the previous three month's performance. This improvement however, needs to be viewed in the context of the local recession and international economic slowdown, which is adversely affecting ARH's overall portfolio and returns.

Ports of Auckland's trading volumes declined again during the quarter. Investment property income was on budget. The New Zealand Short-term cash portfolio returned 0.85% in the quarter and outperformed its benchmark.

In the three months to 30 June 2009, \$26.2 million was distributed to the ARC. From 1 July 2004 to 30 June 2009, ARH distributed \$496.4 million to the Auckland Regional Council (ARC), predominantly for transport and stormwater programmes.

These distributions of \$496.4 million were funded 59% from ARH's capital and the balance from ARH's income. ARH is unable to pay high levels of distributions to the Auckland Regional Council (ARC) solely from income in present economic circumstances.

ARH's 2009-2019 Long-term Funding Plan (LTFFP) indicates that 50% of future distributions to the ARC will have to be funded from ARH's capital.

ARH is rebalancing and adjusting its financial assets portfolios to ensure that it can meet its liquidity needs and distribution commitment to the ARC up to 30 June 2010.

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.

ARH total portfolio return

For the April to June 2009 quarter, ARH had a gross income budget of \$9.0 million. Actual performance for the period was \$19.7 million.

	Actual Quarter Ended 30-Jun-09 \$000	Budget Quarter Ended 30-Jun-09 \$000	Actual 12-months Ended 30-Jun-09 \$000	Budget 12-months Ended 30-Jun-09 \$000
Income				
<u>NZ Equity – Non-Listed</u> POAL Dividends ¹	-	-	\$7,190	\$12,248
<u>NZ Property</u> Investment Property Income	\$2,491	\$2,345	\$11,680	\$10,386
Investment Property Revaluation ²	-	(\$2,764)	(\$45,733)	(\$5,577)
<u>DFA</u> Interest, Dividends & Gains	\$15,969	\$7,478	(\$27,983)	\$27,920
<u>NZ Short-Term Cash</u> Interest	\$1,198	\$1,950	\$12,296	\$12,548
Total	\$19,658	\$9,009	(\$42,550)	\$57,525

Ports of Auckland

ARH will provide support to POAL to ensure the company is well positioned to ease through an anticipated continuing decline in trading volumes when alternative sources of capital are scarce in a saturated market. ARH's support decision is subject to the Auckland Transition Agency's confirmation.

As an active and involved shareholder, ARH is focused on the long term stewardship of its cornerstone asset and ensuring it achieves its cost of capital over time. It is in the long-term interests and to the benefit of the Auckland and wider region to have a successful operating port with an improved capital structure. This will provide certainty to its customers and ensure POAL is positioned to deliver long-term functionality for the Auckland and national supply chain.

Total container volumes for the April to June 2009 quarter were down by 4.5% to 194,625 TEU, compared to 203,765 TEU for the same period last year. Container volumes at the Axis terminals were down by 3.2% for the quarter compared to the same period last year.

In the biggest operational change in a decade, from 6 July 2009 container operations will be based at the Fergusson container terminal, enabling the company to be more flexible and efficient. Significant cost savings will result from the consolidation through the elimination of duplicated overheads and infrastructure. The Fergusson truck processing infrastructure is being expanded and reconfigured to cater for the additional traffic.

¹ Does not include any potential unrealised capital gains or losses on ARH's investment in POAL (NZ Equity (Non-listed)) which are not generally recognised as income under New Zealand financial reporting standards unless they are revaluation decreases which exceed revaluation reserves. The fair value of ARH's investment in POAL is currently being assessed by an external valuer. Therefore any potential unrealised capital gains or losses on the investment after 31 December 2008 have not yet been recognised.

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

After a protracted negotiation period the Collective Employment Agreement (CEA) has been signed with staff for commencement on 1 July 2009 for a period of two years and three months. This agreement covers around 300 employees who are members of the Maritime Union of New Zealand - Local 13.

POAL has a range of cost-cutting measures in place and is gearing itself to make further performance enhancements. Meanwhile, construction has started at Wiri on the inland port rail exchange.

New Zealand property

The largest waterfront urban renewal project ever undertaken in New Zealand is progressing steadily within Wynyard Quarter.

During the quarter, the necessary approvals for Precinct Plan 1 were ratified. This part of the project includes Jellicoe Street and North Wharf where public and private predevelopment works are under way.

The designers, Taylor Cullity Lethlean and Wraight & Associates, have delivered design concepts and are now working on a developed design for Jellicoe Street and North Wharf which will be refined in the detailed design stage later this year. The vision for the area is to create more links to the waterfront and promote a range of activities, while retaining its character. Jellicoe Street will feature an entertainment area with large public spaces, restaurants and bars as well as being home to the seafood industry, with fishing boats coming and going from the restored North Wharf.

Taylor Cullity Lethlean is the design firm who transformed the Geelong Waterfront, Australia, into a vital public destination by tapping into the rich heritage of the former port. The company is also involved in the masterplanning and design of the public spaces for Harbour Esplanade at the Melbourne Docklands.

Successful proposals for a marine cluster on the western edge of Wynyard Quarter are taking shape. A major expansion of New Zealand's superyacht refit capacity is proposed with Sea+City Projects Limited (Sea+City Projects) putting together a package for private sector participants interested in providing the necessary facilities. Physical work in this area could begin in the first half of next year. The plans for additional support infrastructure, which have the capacity to earn an additional \$200 million a year and create up to 1500 new jobs, have the backing of the marine industry.

Waterfront research

During the quarter, ARH completed a review of 60 international waterfront developments in 50 cities.

The research revealed that retaining the vibrancy of the working waterfront and integrating the waterfront with the central business district (CBD) and port precinct are overriding success factors for the great waterfront cities of the world.

Of the 50 waterfront cities researched, 40 per cent had a deep-water port within 3km of the city centre and 80 per cent within 10km.

ARH's research concentrated on the governance and delivery models of waterfronts: what worked, what did not and why. It covered waterfront characteristics such as prior land use, number of landowners, how many levels of government were involved, what triggered the waterfront renewals and the type of governance structures and funding models used. It also looked at port precincts and how they inter-related with waterfront developments and CBDs.

The findings showed that an enhanced governance structure can provide a mechanism to assist in the delivery of a world-class waterfront and identified other "key success factors" critical for successful city waterfront renewals, which included control of the land, committed funding, appropriate phasing and timing, and cooperation and collaboration.

Diversified Financial Assets Portfolio (DFA)

Volatility continues to impact on the performance of the DFA but with a more encouraging result than the previous quarter. Over the quarter the value of the DFA increased by \$15.8 million, largely due to the performance of global equities. The return on the portfolio for the quarter was 6.22%.

New Zealand Short-term Cash Portfolio

Despite current low interest rate returns following the unprecedented decrease in New Zealand's official cash rate, this portfolio returned 0.85% and outperformed its benchmark for the quarter. The portfolio valuation at 30 June was \$120.1 million.

Outlook

Auckland Regional Holdings has reviewed its funding priorities and liquidity requirements and there are reflected in its 2009-2019 Long-term Funding Plan.

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 2009-2019 LTFP would see 50% of future distribution funded from capital.

Some adjustments and rebalancing of ARH's portfolio are required but the current approach is to maintain ARH's strategic asset allocation and portfolio construction. ARH will distribute net income and investment capital to meet short-term transport infrastructure funding needs while seeking to preserve its long-term revenue-generating capacity from core investments. ARH's core strategic investment base includes Ports of Auckland and its waterfront investment property within the Wynyard Quarter.

ARH is confident it can meet its commitment to the ARC up to 30 June 2010. However, meeting this commitment will require a drawdown of funds from the DFA.

ARH is undertaking ongoing comprehensive review of its investment strategy and is testing its ability to meet current objectives in light of continuing financial uncertainty and other pressures on its investment portfolio.

Judith Bassett
Chair