

AUCKLAND REGIONAL HOLDINGS CHAIR'S REPORT For the Jan-Mar 2010 Quarter

For the second quarter running we are pleased to report that financial returns from all asset classes have improved. ARH's Net Profit After Tax (NPAT) for the quarter ended 31 March 2010 was \$19.0 million which was well ahead of budget.

After months of volatility and uncertainty, the Diversified Financial Assets Portfolio (DFA) performed well for the second quarter running, returning \$8.3 million for this latest quarter. Ports of Auckland paid a \$9.9 million interim dividend for the 2009/2010 financial year. A further \$1.3 million was generated from the operating business of the Wynyard Precinct Investment Property and interest from cash deposits.

Distributions to the Auckland Regional Council (ARC) were \$7.8m for this quarter with another \$24.6 million forecast to be required before the end of June 2010.

ARH will keep actively monitoring its 12-month rolling cash-flow position and liquidity requirements to ensure there are sufficient funds to meet distributions commitments to the ARC, investment property infrastructure funding and other commitments.

ARH's total focus during this period of governance change is on ensuring its portfolio continues to be in the best possible health for the handover to the new Auckland local government structure. To maintain its prudent and long-term stewardship of the portfolio, ARH will continue to actively manage its assets. Risk mitigation, as always, is a high priority and risk management strategies are in place aimed at getting the best returns (within risk boundaries) from the total portfolio coupled with achieving the best outcome for the Auckland region.

ARH total investment portfolio return

For the quarter from January to March 2010, ARH had a gross income budget of \$9.5 million. Actual performance for the period was \$21.1 million.

	Actual Quarter Ended 31 Mar 10 \$000	Budget Quarter Ended 31 Mar 10 \$000	Variance \$000	Actual YTD Ended 31 Mar 10 \$000	Budget YTD Ended 31 Mar 10 \$000	Variance \$000	Budget Year Ending 30 Jun 10 \$000
<i>NZ Equity – Non-Listed</i> ¹ POAL Dividends and Loan Interest	\$10,065	\$6,381	\$3,684	\$22,538	\$17,049	\$5,489	\$17,330
<i>NZ Property</i> ² Investment Property Income	\$1,880	\$1,506	\$374	\$6,150	\$5,463	\$687	\$7,068
<i>DFA</i> Interest, Dividends & Gains	\$8,662	\$1,374	\$7,288	\$30,112	\$4,369	\$25,743	\$5,825
<i>NZ Short-Term Cash</i> Interest	\$472	\$226	\$246	\$1,647	\$937	\$710	\$1,091
Total	\$21,079	\$9,487	\$11,592	\$60,447	\$27,818	\$32,629	\$31,314

¹ Does not include any potential unrealised capital revaluation of ARH's equity investment in POAL which is not recognised as revenue under financial reporting standards, and is only recognised when supported by an independent valuation.

² Does not include any potential unrealised capital revaluation of ARH's Wynyard Precinct Investment Property which is only recognised when supported by an independent valuation.

Ports of Auckland Limited (NZ equity – non-listed)

Total container volumes handled by Ports of Auckland Limited (POAL) increased by 10.6% compared to the quarter ended 31 March 2009. Import volumes have remained strong after the Christmas season.

There were 39 cruise ship calls in the quarter against the 37 budgeted and 43 against the same quarter in 2009. Dream World Cruise Destinations named Auckland as a “Most Responsive Port for 2009”, citing a cruise team that responds quickly to requests for information and finds solutions to the challenges and demands of the cruise lines.

Ports of Auckland officially opened the Wiri to Waitemata seaport rail link in March 2010. The new rail link to and from the Wiri Freight Hub brings the seaport right to the doorstep of businesses in South Auckland, offering greater efficiencies and flexibility for exporters and importers and to the wider supply chain. It will free up room at the Waitemata seaport which is good news also for the whole supply chain as it helps position Ports of Auckland for future growth. During the period, Ports of Auckland introduced new cargo-handling and logistics services by combining its suite of information and cargo management systems into one online product on a single platform.

The Ports of Auckland Round the Bays fun run was held on 14 March 2010 and attracted 72,000 participants including 470 POAL staff. POAL also supported the Onehunga Community Festival. With so much current attention on Auckland's waterfront and wharves there has been increasing pressure on Ports of Auckland to give up more land for public access. Lost in the debate has been the critical role that Ports of Auckland plays, not only as a vital cog in the national supply chain, but as one of the key drivers of the region's economy.

Recent freight data projections show that New Zealand's total freight is expected to rise by 75% over the next 25 years which means that New Zealand's container ports will need to lift their capacity – increasing technology and productivity to world-class levels to cope with the demand.

ARH's research has shown that, in the North Island of New Zealand, all the current and planned capacity of the ports of both Auckland and Tauranga will be fully utilised even at moderate freight growth levels.

It makes sense, economically and environmentally, that the key NZ deepwater container ports that are close to commercial and population hubs enhance their infrastructure and supporting land transport infrastructure. There is no other feasible site for a port to service Auckland and its wider catchment area. Ports of Auckland has released over half of its original waterfront land and wharf space – including Queens Wharf. It now occupies less than 2kms of the 15km waterfront stretch between the Harbour Bridge and St Heliers Bay. Its entire remaining footprint is needed now and for the future, especially Bledisloe Terminal which is required as a vital third container berth as well as for servicing the vehicle trade after relinquishing Queens Wharf.

ARH supports the optimisation of the New Zealand supply chain – a move all the more necessary and urgent to ensure New Zealand remains competitive and sustainable in the face of accelerating change. To achieve efficient infrastructure investment in port, transport and other regional infrastructure it is essential to involve a range of stakeholders in a coordinated whole-of-supply-chain approach to planning. ARH, as the shareholder of Ports of Auckland, will play its part in achieving the best outcome for the long-term benefit of New Zealand.

New Zealand Property

In late February 2010 Kiwi Income Property Trust (KIPT) entered into an agreement with ASB Bank to develop the bank's new state-of-the-art, high-sustainability head office premises on a prime Auckland waterfront location: the corner of Jellicoe and Halsey streets in the Wynyard Quarter. The \$121 million investment project from an iconic Auckland business is an encouraging show of confidence from the private sector in the potential of the Wynyard's Precinct. KIPT's Chief Executive Chris Gudgeon described the Wynyard renewal project as a future landmark precinct for Auckland City which will help to define the city in years to come, just as Darling Harbour has for Sydney. It will help Auckland make its mark as a city on the international stage he said.

The expression of interest process for a key site in Wynyard Quarter's expanded marine precinct, to help promote New Zealand as a top superyacht refit location, commenced during the quarter. The old Mobil site at the western end of Jellicoe Street is a key part of the plan for the precinct, which could earn the country an estimated \$200 million a year and create up to 1,500 new jobs. The 1.6ha site will offer the capacity for the industry to work on 80-metre long superyachts, and give the industry much more space and water access than it has access to at present. The priority now is to attract an investor(s) for the leasehold interest in the site.

Intensive efforts have continued during the quarter to ensure timely and appropriate resolutions to plan change appeals; participation in the district and coastal plan hearings; and to progress and find alternative sites for moving the bulk liquids tanks.

The concept plans for public space along North Wharf are firmly based on a working waterfront with public access, which will include the continuing presence of the fishing fleets and seafood markets. This includes a waterside promenade, new buildings on a repaired and rebuilt North Wharf, landscaped and planted public spaces along Jellicoe Street, and a substantial urban park featuring the former cement silos. The concepts for the public spaces in the Jellicoe Street park area and waterspace can be seen online at the website – www.seacity.co.nz.

ARH and the Auckland City Council have jointly committed \$211 million over 10 years for the public amenity and infrastructure works for the Wynyard urban renewal project. The continuity of this funding is a key factor in maintaining the current momentum.

Auckland a Maritime Jewel

There has been considerable attention on Auckland's waterfront. Wynyard Quarter's potential is at last being realised with serious investment from the private sector and action on the ground as the first stage of the public works takes shape. In late January 2010, during the Seafood Festival, the "Red Shed" reopened, allowing the public to walk through onto the strengthened North Wharf to the water's edge of Jellicoe Harbour.

Attention on the waterfront has also drawn in the port precinct with some confused debate about the port's function, contribution and its future. Auckland's existing regional and local plans for the city's waterfront and Central Business District (CBD) have all included the long-term ongoing operation and success of the port and marine industries located on the waterfront as key strategies to build a world-class waterfront.

ARH's own research of international opinion echoes the same recurring theme and success factors for waterfronts: the world's most successful waterfronts are those that retain the vibrancy of a working waterfront by integrating the port, the harbour, central business district, marine, fishing and cruise ship industries.

Diversified Financial Assets Portfolio (DFA)

Returns from the DFA in the quarter to March 2010 exceeded budget across all classes with a total return of 3.76% for the quarter. For the year-to-date the return on the DFA was 12.68% compared with a benchmark return of 13.44%. The total value of the DFA as at 31 March 2010 is \$239.6 million.

ARH's investments in global equities and bonds bounced back during the quarter but ARH is watching the situation closely as there is still great investor nervousness about longer-term stability.

New Zealand Short-term Cash

ARH has adopted an alternative investment strategy for the short-term investment of cash required to be held for liquidity and liability management purposes. ARH has put in place a laddered fixed-term deposit regime that will improve the interest return on its cash portfolio. This is a low-cost-structure, high liquidity approach. A conservative approach has been adopted as at this time ARH's cash flow drawdown profile is still uncertain.

Outlook

As at 31 March 2010, ARH's NPAT is well ahead of budget. The budgeted NPAT for the 2009/2010 financial year (included in the 2009-2019 Long-Term Funding Plan) is \$22.4 million. The current full-year forecast NPAT is \$50.7 million.

However, there is still considerable stress on, and high expectations from, Auckland Regional Holdings' portfolio of assets.

The amount of capital distributed to the ARC over the six years to 30 June 2010, which is expected to total \$342 million, coupled with the world's economic slump which negatively impacted on ARH's earnings in the last financial year, has put the long-term revenue-generating capacity of ARH's total portfolio under significant stress.

Based on actual distributions to the ARC for the period to 31 March 2010 and forecast required funds for the next 10 years until 30 June 2020, ARH would need to distribute a total of \$984 million to the Auckland Regional Council (or its successor). \$515 million of this would be from income and \$469 million from capital¹.

Judith Bassett
Chair

¹ Based on ARH's Draft 2010-2020 LTFP