

AUCKLAND REGIONAL HOLDINGS CHAIR'S REPORT For the Jul-Sept 2009 Quarter

An encouraging lift in performance in ARH's financial assets and in trading volumes at Ports of Auckland gave a positive start to the first three months of the financial year. There has been an ongoing heavy call on funds with \$52.5 million paid to the Auckland Regional Council (ARC) in distributions during the quarter ended 30 September 2009.

There were promising signs from Ports of Auckland where trading volumes increased by seven percent over the previous quarter. Investment property income was ahead of budget. Although still volatile, the Diversified Financial Assets Portfolio (DFA) increased for the second consecutive quarter. The DFA returned 5.6% in the quarter and achieved net realised gains of \$15.1 million. The New Zealand Short-term Cash Portfolio returned 0.74% in the quarter and outperformed its benchmark.

From 1 July 2004 to 30 September 2009, ARH has distributed \$548.9 million to the ARC. These distributions have been funded 57% from ARH's capital and the balance from ARH's income. ARH's 2009-2019 Long-term Funding Plan (LTFP) indicates that 43% of future distributions to the ARC will have to be funded from ARH's capital.

ARH is unable to pay high levels of distributions to the ARC solely from income in uncertain economic times, therefore ARH has reviewed and adjusted its financial assets portfolios to ensure that it can meet its liquidity needs and distributions commitments to the ARC up to 30 June 2010. This will see ongoing capital depletion of the ARH investment portfolio. ARH has agreed, within its LTFP, with the ARC's view that the short-term needs of regional public transport infrastructure funding must be met and that doing so is in the long-term interests of the region.

As custodian of a substantial regional portfolio of assets, ARH interprets section 19 (1) of the Local Government (Auckland) Amendment Act 2004 as meaning it must manage its business to sustain a reasonable revenue-generating capacity to the region over the long-term. The situation is being monitored closely.

ARH total investment portfolio return

For the July to September 2009 quarter, ARH had a gross income budget of \$14.3 million. Actual performance for the period was \$18.2 million.

Revenue ¹	Actual Quarter Ended 30-Sep-09 \$000	Budget Quarter Ended 30-Sep-09 \$000	Variance \$000	Variance %	Budget Year Ending 30-Jun-10 \$000
<i>NZ Equity – Non-Listed</i> POAL Dividends and Loan Interest	-	\$10,387	(\$10,387)	(100%)	\$17,330
<i>NZ Property</i> Investment Property Income	\$2,195	\$1,969	\$226	11.5%	\$7,144
<i>DFA</i> Interest, Dividends & Gains	\$15,407	\$1,645	\$13,762	837.6%	\$5,825
<i>NZ Short-Term Cash</i> Interest	\$626	\$327	\$299	91.4%	\$1,091
Total	\$18,228	\$14,328	\$3,900	27.2%	\$31,390

Ports of Auckland Limited (NZ Equity – Non-listed)

Container volumes at Ports of Auckland for the quarter were 208,812 TEU (20-foot equivalent container units), an increase of seven percent over the April to June 2009 quarter. Although an encouraging sign signalling a gradual increase in full import container volumes, the recovery is fragile and container volumes remain below 2008 levels, with total TEU for the July to September 2009 quarter down five percent year-on-year.

Trans-shipment volumes, where containers destined for on-shipping to other New Zealand ports are routed through Auckland, were up five percent for the quarter compared to the same quarter of the previous year. Car volumes, as well as break-bulk (non-containerised) and bulk volumes, were up 14.8% and 9.0% respectively from the April to June 2009 quarter, but were down 29% and 33% compared to the same quarter last year.

The global shipping environment is challenging. Unrelenting cost pressures have caused large international shipping lines to run leaner operations and cut back on capacity, reducing the number of ships calling at New Zealand and the number of available container slots. Shipping lines have implemented vessel-sharing arrangements similar to airline industry code sharing.

Ports of Auckland's prime position and ongoing productivity improvements, put it in a strong position to win future import business. POAL's competitive advantages include time, cost and environmental benefits to discharging imports direct at the Auckland seaport, instead of routing import cargo from other ports via road or rail to the Auckland market.

New Zealand Property

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

Pleasing progress continues within the Wynyard Quarter - the largest waterfront urban renewal project ever undertaken in New Zealand.

The design aspects for parts of the redevelopment, which it is hoped will be completed in time for the Rugby World Cup 2011, are well underway. This includes a waterside promenade, new buildings on a repaired and rebuilt North Wharf (which is well advanced), landscaped and planted public spaces along Jellicoe Street, and a substantial urban park, featuring the former cement silos. The first phase of providing new on-the-water facilities needed by the superyacht refit business is also included. The concepts for the public spaces in the Jellicoe Street park area and waterspace can be seen online at the Sea+City Projects Limited website www.seacity.co.nz.

ARH lodged a supporting submission to the Auckland City Council's application for resource consent for a coastal permit to construct and operate the Marine Events Centre on the Halsey Street Extension Wharf. ARH believes that this initiative will play a pivotal role in bringing the Wynyard Quarter alive.

Although the Te Wero Bridge to link Te Wero Island with the Wynyard Quarter is deferred until 2016, all parties are working towards an interim solution; the currently preferred option is an elevated pontoon bridge. The bridge will allow east/west access for pedestrians and link the Wynyard Quarter with the CBD.

Diversified Financial Assets Portfolio (DFA)

Despite expected ongoing volatility, the DFA experienced positive returns for the second consecutive quarter with a return of 5.6% for the quarter ended 30 September 2009. All asset classes within the portfolio achieved positive returns with global bonds and New Zealand cash outperforming their benchmarks.

New Zealand Short-term Cash Portfolio

This portfolio returned 0.74% and outperformed its benchmark for the quarter. The portfolio valuation at 30 September 2009 was \$27.4 million. ARH is currently reviewing its short-term liquidity requirements and cash management procedures for optimal investment of funds currently invested in ARH's interest bearing bank account.

Outlook

ARH is both encouraged and cautious about the future. Encouraged by the apparent stabilisation and improvements in earnings from the financial assets and a steady uplift in container volumes through Ports of Auckland. But, ARH is cautious about ongoing economic uncertainty, timing and the level of recovery and of the various pressures on ARH's investment portfolio in the short-term which threaten its long-term sustainability.

ARH has reviewed its funding priorities and liquidity requirements and these are reflected in its 2009-2019 Long-term Funding Plan.

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 over time from its core strategic investment base: Ports of Auckland and the Wynyard Precinct Investment Property.

Judith Bassett
Chair