

AUCKLAND REGIONAL HOLDINGS CHAIR'S REPORT For the Oct-Dec 2009 Quarter

During the quarter ended 31 December 2009 there was a steady and encouraging lift in most ARH asset classes which continues to impact positively on ARH's overall portfolio. The Diversified Financial Assets Portfolio (DFA) over the last six months has returned 8.39% to ARH – well ahead of budget. A dividend of \$12.4 million (\$2.2 million higher than budget) was received from Ports of Auckland.

From 1 July 2004 to 31 December 2009, ARH distributed \$570.7 million to the ARC. These distributions were funded 56% from ARH's capital and 44% from ARH's income. ARH's 2009-2019 Long-term Funding Plan (LTFP) indicates that 41% of future distributions to the ARC may need to be funded from ARH's capital.

ARH has reviewed and adjusted the composition of its financial assets portfolios to ensure that it can meet its liquidity needs and distributions commitments to the ARC up to 1 November 2010. This will require ongoing depletion of capital from ARH's total 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.

ARH total investment portfolio return

For the October to December 2009 quarter, ARH had a gross income budget of \$4.0 million. Actual performance for the period was \$21.1 million.

Revenue	Actual Quarter Ended 31 Dec 09 \$000	Budget Quarter Ended 31 Dec 09 \$000	Variance \$000	Actual YTD Ended 31 Dec 09 \$000	Budget YTD Ended 31 Dec 09 \$000	Variance \$000	Budget Year Ending 30 Jun 10 \$000
<i>NZ Equity – Non-Listed</i> ¹ POAL Dividends and Loan Interest	\$12,473	\$281	\$12,192	\$12,473	\$10,668	\$1,805	\$17,330
<i>NZ Property</i> ² Investment Property Income	\$2,074	\$1,987	\$87	\$4,271	\$3,956	\$315	\$7,068
<i>DFA</i> Interest, Dividends & Gains	\$6,042	\$1,349	\$4,693	\$21,451	\$2,995	\$18,456	\$5,825
<i>NZ Short-Term Cash</i> Interest	\$549	\$384	\$165	\$1,175	\$711	\$464	\$1,091
Total	\$21,138	\$4,001	\$17,137	\$39,370	\$18,330	\$21,040	\$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.

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)

The Auckland Transition Agency confirmed ARH's \$70 million financial package for Ports of Auckland comprising up to \$50 million of ordinary equity and up to \$20 million of shareholder loan, repayable over three years. The first \$10 million tranche of the shareholder loan was drawn down during the quarter.

Ports of Auckland has been steadily continuing with its plan to upgrade and improve port infrastructure and services. Construction of the rail exchange at Wiri is almost complete. Containers will move to and from the seaport by rail, saving as many as 100,000 central city truck trips per annum once the service is fully operational. The Wiri Inland Port's prime location will benefit importers and exporters as well as providing a high-performing freight hub for the whole of the New Zealand supply chain.

Ports of Auckland's ongoing productivity improvements put it in a strong position to play its critical role in the NZ supply chain efficiently and effectively. 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.

Long-term optimisation of the port sector

ARH's research on the long-term optimisation of the port sector has been shared with industry and central and local government stakeholders. The paper has been well received. A summary of the research paper, which is now on ARH's website www.arh.co.nz, highlights some key findings which include the need for:

- efficient capital investment in port, transport, and other regional infrastructure which makes optimal use of existing investment and minimises unnecessary future duplication of investment and stranded assets;
- sustainable long-term returns to enable future investment;
- sufficient port and inland supply-chain capacity to handle future freight growth;
- ensuring that New Zealand remains internationally competitive;
- minimising supply-chain costs and increasing efficiency; and
- reducing carbon emissions.

New Zealand Property

A considerable amount of time and effort has been spent in the past three months to ensure that there is a timely and appropriate resolution to the appeals process for the redevelopment of the Wynyard Precinct. Every effort is being made to make sure that the public works programme – scheduled to start in 2010 – is not delayed.

A positive sign is that there is considerable interest from retail operators to take up leases in the Precinct as the economy lifts and investment confidence returns.

Sea+City Projects Limited (Sea+City), and ARH are progressing critical commercial initiatives to try and resolve plan change objections so that activity can continue and the benefits keep flowing. Sea+City is also managing a myriad of planning processes around resource management activities which cover plan modifications, variations and consents.

Advances have been made during the quarter in reaching agreement on significant transactions and minimising industrial risk. This includes the tidy and timely transition of the bulk liquids to other sites and the contamination remediation of those vacated sites.

The design aspects for parts of the redevelopment, which are planned to be completed in time for the Rugby World Cup 2011, are on track and now getting into the detail. 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.

Details include wide-ranging items from the design of the gantry structure for Silo Park, redesign of Jellicoe Street and future-proofing for light rail. Concept designs are well progressed for Gateway Plaza, Halsey Street and the surrounds for the Auckland City Council's Marine Events Centre.

Topline findings of a recent UMR omnibus survey of people region wide revealed some encouraging information about public awareness of Auckland's waterfront plans and the Wynyard revitalisation. From a public and investment perspective, the majority of respondents were aware and supported plans to open up the waterfront and 87% gave the thumbs up to the Wynyard Quarter revitalisation project. An economic impact study conducted during the quarter indicated that anticipated investment from the private sector over the next 25 years would be between four and five billion dollars on new buildings and infrastructure, including support of the superyacht refit and fishing industry.

Diversified Financial Assets Portfolio (DFA)

Better-than-expected returns from the DFA in the quarter to December 2009 saw all asset classes achieve positive returns with a total return of 2.59% for the quarter. The Global Equities and NZ Cash asset classes outperformed their respective benchmarks and the Global Bonds asset class had a slight underperformance against the benchmark. For the year-to-date the return on the DFA was 8.39%.

Nevertheless in this quarter, ARH's investments in global equities and bonds have continued to experience ongoing volatility. World markets were shaken with the announcement of the Dubai Government-owned Dubai World debt crisis and ballooning debt in Greece, which caused a downgrade in that country.

New Zealand Short-term Cash Portfolio

As part of ARH's short-term liquidity focus, ARH has adopted an alternative investment strategy for short-term investment of cash required to be held for liquidity and liability management purposes. The New Zealand Short-term Cash Portfolio mandates were disestablished in late December 2009 as ARH implemented its new procedures.

For the period from 1 October 2009 to 21 December 2009, the combined gross performance of the Portfolio of 0.65% outperformed the benchmark return of 0.63%.

Outlook

ARH is both encouraged and cautious about the future. Its budgeted net profit after tax for the 2009/2010 financial year is \$22.4 million. As at 31 December 2009 ARH is well ahead of budget.

There is every indication that returns from diversified financial assets will continue to lift, which is encouraging, but makes it all the more important to retain funds in the DFA for as long as possible. ARH remains 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. All these factors threaten its long-term sustainability.

There are significant steps forward in the "business as usual" category. Major progress has been achieved to date within Wynyard Quarter. A first taste of what it to come will be in late January 2010 during the Seafood Festival when the "Red Shed" will open and allow people to walk through on to the strengthened North Wharf to the water's edge of Jellicoe Harbour.

It is critical that the momentum gained throughout the year is maintained on the Wynyard Quarter project to meet the promise to the people of the Auckland region to open the waterfront and revitalise the area. This can be achieved only by completing visible projects to realise the waterfront vision and demonstrating that tangible amenities are being provided.

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 will play its part in achieving the best outcome for the long-term benefit of New Zealand.

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