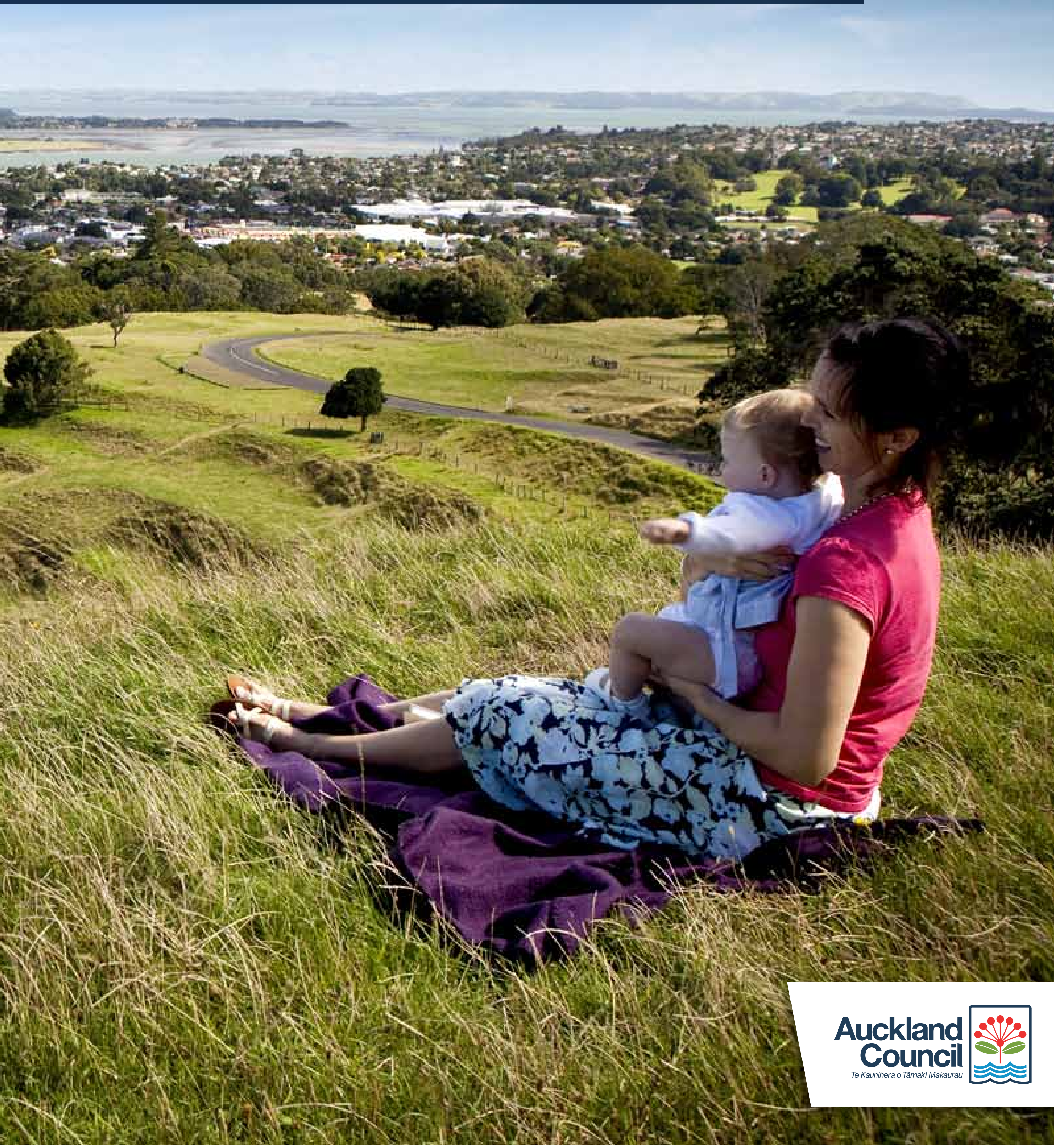
Auckland Council Group Half-year Report

31 December 2012



Auckland Council
Te Kaunihera o Tāmaki Makaurau

Contents

Message from the mayor

Auckland continues to make great strides towards becoming the world's most liveable city.

In the six months to December 2012, we reaffirmed our top 10 rankings in all three major international quality of life surveys, and staked our claim as a major global events and sports destination, coming second only to Olympic host London in the 2012 International Sports City Awards.

Auckland Council forged ahead with investment in regional infrastructure and local communities, while maintaining strong financial prudence.

We successfully introduced our Auckland Transport HOP integrated ticketing system on trains and ferries, ahead of its introduction to buses this year.

Housing availability and affordability and the impact of alcohol-related harm have gained prominence in recent months.

Auckland Council is leading the way on these issues. Actions from my Mayoral Taskforce on Alcohol and Community Safety saw liquor licensing compliance rates around 95 per cent while alcohol-related anti-social incidents in the city centre plummeted by 50 per cent.

Auckland Council formed a Housing Strategic Action Plan, putting in place new tools to help the housing sector respond to this urgent need.

It complements the Auckland Plan and the toolkit of the upcoming Auckland Unitary Plan. The latter has been a major body of work in the past six months and will continue to be a focal point for the council in 2013.

The Unitary Plan will simplify and streamline planning processes, saving time and money for homeowners and developers, and will be a key tool in realising Auckland's future shape as a quality compact city.

Len Brown
Mayor of Auckland

Message from the chief executive

During the period this document covers, the six months to December 2012, Auckland Council implemented two key pieces of work – the introduction of a single rating system to the region's 516,000 ratepayers and a continued programme of work focused on reducing the cost of delivering services to our community.

We have achieved cost reductions of $131 million during our first two years, in the areas of improved procurement, asset utilisation and operational efficiency. Our continued focus on cost reduction and efficiencies has enabled us to reduce average rates increases forecast in the long-term plan three years in a row, while progressing over $3.5 billion in infrastructure projects, doubling the previous level of infrastructure investment.

The introduction of the single rating policy, replacing eight legacy policies of the previous councils, in July was another key accomplishment. This was a large and complex project, requiring revaluation of more than half a million properties and effective communication to ratepayers, many of whom experienced a high level of change on transition to the new rating policy over a three-year period.

In December 2012, the Office of the Auditor-General completed a review report on the council two years on from the council's establishment. They pointed out that although the new council has faced lots of challenges, the management of the transition has been exceptional. The Auckland Plan has been completed to provide the Auckland region with a more unified and integrated direction for the city.

Two major credit rating agencies completed their annual reviews of council. Both Moody's and Standard & Poor's reaffirmed our credit ratings at Aa2 and AA respectively, leaving us one of the highest-rated entities in New Zealand.

Standard & Poor's noted Auckland Council's capable and conservative financial management, strong and diversified economy, high budget flexibility, supportive institutional framework and positive liquidity position.

I'd like to acknowledge our hard-working staff who have been involved in identifying further cost reduction options for 2013/2014, without losing sight of what we still have to deliver and our responsibilities to Aucklanders.

Doug McKay
Chief Executive
Auckland Council

Financial commentary

For the six months ended 31 December 2012, Auckland Council Group ('the group') had a net operating income of $62 million.

Revenue increased by $78 million compared to the same period last year, to $1,570 million. This includes $57 million of assets vested from developers, up by $44 million from December 2011.

Reported rate revenue was down on December 2011 due to a shift of $44 million of wastewater rates now collected through direct user charges and disclosed under core and other services revenues.

Total operating expenditure was in line with the same period last year at $1.3 billion. Personnel costs have increased due to insourcing of services and cost of living adjustments, offset by a decrease in other expenditure.

Net finance costs increased by $24 million, in line with increased debt for the group in the past 12 months.

Also included in reported surplus was $385 million of vested assets received by Auckland Transport from the Crown. These assets relate to state highways in the Auckland area that are now classified as local roads by the New Zealand Transport Agency and are therefore under the control of Auckland Transport.

Total net assets for the group have increased by $455 million since June 2012. Significant changes are investment in property, plant and equipment, and cash and cash equivalents, with increases of $618 and $96 million respectively.

This is offset by an increased debt level of $463 million used to fund the capital programme that includes the purchase of 135 Albert Street for $104 million and roading infrastructure of $188 million.

The group is carrying $308 million of cash at 31 December. It has taken advantage of recent low financing costs to secure this funding upfront at a lower overall cost of debt than we expected to be available in the latter half of the financial year. These funds have been raised through a combination of retail and wholesale debt issues.

Statement of comprehensive income
for the six months ended 31 December 2012

($millions)	Note	6 months to 31 Dec 2012 Unaudited	6 months to 31 Dec 2011 Unaudited	12 months to 30 June 2012 Audited
Revenue				
Rates	3	745	772	1,394
Core services and other		825	720	1,444
Total revenue		1,570	1,492	2,838
Expenditure				
Personnel		353	333	655
Depreciation and amortisation		333	297	623
Grants, contributions and sponsorship		71	47	85
Other		579	664	1,388
Total expenditure		1,336	1,341	2,751
Net finance costs		172	148	289
Net operating income (loss)		62	3	(202)
Net other gains (losses)	4	12	(123)	(76)
Assets vested by the Crown		385	-	-
Share of equity accounted investments' surplus		18	18	36
Surplus (deficit) before tax		477	(102)	(242)
Income tax benefit		1	14	10
Surplus (deficit) after tax from continuing operations		478	(88)	(232)
Deficit from discontinued activities		-	-	(1)
Surplus (deficit) after tax		478	(88)	(233)
Other comprehensive income				
Net gain on revaluation of property, plant and equipment		-	-	579
Tax on revaluation of property, plant and equipment		-	-	(24)
Revaluation of cash flow hedges		(9)	(28)	(46)
Net change in fair value of cash flow hedges transferred to surplus (deficit)		1	-	-
Share of associates' reserves		(3)	(3)	(4)
Revaluation of financial assets classified as held-for-sale		23	3	6
Net change in fair value of financial assets classified as held-for-sale transferred to surplus (deficit)		(1)	-	-
Total other comprehensive income (loss)		11	(28)	511
Total comprehensive income (loss)		489	(116)	278

The accompanying notes and review report form part of, and are to be read in conjunction with, these financial statements.

Statement of changes in equity (unaudited)
for the six months ended 31 December 2012

($millions)	Contributed equity	Accumulated funds	Property, plant and equipment revaluation reserve	Other reserves	Total ratepayer equity	Non - controlling interest	Total equity
Equity at 1 July 2012	26,354	(301)	1,851	358	28,262	1	28,263
Surplus after tax	-	478	-	-	478	-	478
Other comprehensive income	-	-	-	11	11	-	11
Total comprehensive income	-	478	-	11	489	-	489
Deconsolidation of Counties Manukau Pacific Trust (note 7)	(39)	2	4	-	(33)	-	(33)
Acquisition of minority interest share in CONLINXX Limited (note 7)	-	-	-	-	-	(1)	(1)
Transfers	-	3	(1)	(2)	-	-	-
Equity at 31 December 2012	26,315	182	1,854	367	28,718	-	28,718

($millions)	Contributed equity	Accumulated funds	Property, plant and equipment revaluation reserve	Other reserves	Total ratepayer equity	Non - controlling interest	Total equity
Equity at 1 July 2011	26,354	(107)	1,300	437	27,984	1	27,985
Deficit after tax	-	(88)	-	-	(88)	-	(88)
Other comprehensive loss	-	-	-	(28)	(28)	-	(28)
Total comprehensive loss	-	(88)	-	(28)	(116)	-	(116)
Transfers	-	4	-	(4)	-	-	-
Equity at 31 December 2011	26,354	(191)	1,300	405	27,868	1	27,869

The accompanying notes and review report form part of, and are to be read in conjunction with, these financial statements.

Statement of financial position
as at 31 December 2012

($millions)	Note	31 Dec 2012 Unaudited	31 Dec 2011 Unaudited	30 June 2012 Audited
ASSETS				
Current assets				
Cash and cash equivalents		308	209	212
Receivables and prepayments		264	383	281
Other financial assets		311	203	286
Derivative financial instruments	5	-	-	1
Inventories		19	17	18
Non-current assets held-for-sale		24	3	8
Total current assets		926	815	806
Non-current assets				
Receivables and prepayments		117	101	96
Other financial assets		82	57	67
Derivative financial instruments	5	37	36	39
Property, plant and equipment	6	33,894	32,473	33,276
Intangible assets		359	296	332
Biological assets		4	5	4
Deferred tax		3	-	-
Investment property		371	274	371
Investment in associates and joint ventures	7	743	656	721
Total non-current assets		35,610	33,898	34,906
TOTAL ASSETS		36,536	34,713	35,712

The accompanying notes and review report form part of, and are to be read in conjunction with, these financial statements.

Statement of financial position
as at 31 December 2012 (continued)

($millions)	Note	31 Dec 2012 Unaudited	31 Dec 2011 Unaudited	30 June 2012 Audited
LIABILITIES				
Current liabilities				
Employee entitlements		77	74	70
Payables and accruals		436	491	530
Borrowings	8	927	735	663
Derivative financial instruments	5	12	9	6
Tax payable		8	3	2
Provisions	9	105	68	102
Total current liabilities		1,565	1,380	1,373
Non-current liabilities				
Employee entitlements		7	7	6
Payables and accruals		10	9	10
Borrowings	8	4,568	3,797	4,369
Derivative financial instruments	5	370	293	355
Provisions	9	412	487	442
Deferred tax liabilities		886	871	894
Total non-current liabilities		6,253	5,464	6,076
TOTAL LIABILITIES		7,818	6,844	7,449
NET ASSETS		28,718	27,869	28,263
EQUITY				
Contributed equity		26,315	26,354	26,354
Accumulated funds		182	(191)	(301)
Reserves		2,221	1,705	2,209
Total ratepayer equity		28,718	27,868	28,262
Non-controlling interest		-	1	1
TOTAL EQUITY		28,718	27,869	28,263

The accompanying notes and review report form part of, and are to be read in conjunction with, these financial statements.

On behalf of Auckland Council's governing body:

Len Brown
Mayor of Auckland
1 March 2013

Doug McKay
Chief Executive
Auckland Council
1 March 2013

Statement of cash flows
for the six months ended 31 December 2012

($millions)	Note	6 months to 31 Dec 2012 Unaudited	6 months to 31 Dec 2011 Unaudited	12 months to 30 June 2012 Audited
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		1,500	1,403	2,739
Interest received		4	1	10
Dividends received		20	16	30
Payments to suppliers and employees		(1,085)	(1,157)	(2,232)
Interest paid		(151)	(129)	(267)
Net cash from operating activities	10	288	134	280
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and intangible assets		8	14	65
Proceeds from repayment of loans to related parties		-	2	2
Proceeds from sale of other financial assets		12	-	-
Purchase of property, plant and equipment and intangible assets		(636)	(518)	(1,161)
Purchase of shares in subsidiary		(1)	(1)	(2)
Acquisition of other financial assets		(10)	(50)	(91)
Payments for derivative transactions		(9)	-	-
Advances to related parties		(14)	-	-
Advances to external parties		(5)	-	(5)
Net cash used in investing activities		(655)	(553)	(1,192)
Cash flows from financing activities				
Proceeds from borrowings		670	1,220	1,823
Repayment of borrowings		(205)	(716)	(825)
Repayment of finance leases		(2)	(3)	(1)
Net cash from financing activities		463	501	997
Net increase in cash and cash equivalents and bank overdrafts		96	82	85
Opening cash and cash equivalents and bank overdrafts		212	127	127
Closing cash and cash equivalents and bank overdrafts		308	209	212

Refinanced borrowings have not been included in proceeds from or repayment of borrowings.

The accompanying notes and review report form part of, and are to be read in conjunction with, these financial statements.

Selected explanatory notes (unaudited)

1. General information

Auckland Council ('the council') is a local authority domiciled in New Zealand and governed by the Local Government Act 2002 and Local Government (Auckland) Act 2009. The council's principal address is 1 Greys Avenue, Auckland Central, New Zealand.

The Auckland Council Group ('the group') consists of the ultimate parent, Auckland Council and its subsidiaries, associates and joint ventures, including council-controlled organisations.

These condensed interim financial statements are for the six months ended 31 December 2012 and have been prepared for the group only and are to be read in conjunction with the annual report for the year ended 30 June 2012. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice and they comply with NZ IAS 34: *Interim Financial Reporting*. The financial results for the six-month period ended 31 December 2012 are unaudited; however, they have been the subject of review by the auditors, pursuant to the External Reporting Board's Statement of Review Engagement Standards, RS-1.

2. Basis of preparation

Accounting policies

The accounting policies used to prepare these interim financial statements are consistent with those used at 30 June 2012.

NZ IAS 12: *Income Taxes* has been amended with an effective date of 1 July 2012. The amendments introduce a rebuttable presumption that the measurement of deferred tax liabilities or deferred tax assets arising on investment properties measured at fair value should reflect the tax consequences of recovering the carrying amount entirely through sale. These amendments have resulted in insignificant adjustments to the deferred tax balances and income tax expense.

Accounting judgments, estimates and assumptions

The accounting judgments, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2012.

Comparative information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

Following publication of the 31 December 2011 interim report it was discovered that $32 million of revenue receivable from the Crown, in relation to grants for the Electric Multiple Unit transaction, could not be recognised in advance. As a result, 31 December 2011 revenue and non-current receivables have been restated. This change is consistent with the results reported at 30 June 2012.

Selected explanatory notes (unaudited)
(continued)

3. Rates revenue

Rates are assessed in full at the start of each financial year. They can be paid in full or in instalments. Where rates are paid in advance of instalment due dates the revenue is recognised on receipt. Where rates are paid in instalments, the group recognises rates revenue equally throughout the year.

Rates revenue for the six months ended 31 December 2012 includes $76 million (31 December 2011: $86 million) of rates revenue received for instalments three and four.

4. Other gains and losses

Other gains and losses comprise:

($millions)	6 months to 31 Dec 2012	6 months to 31 Dec 2011	12 months to 30 June 2012
Reversal of previously recognised impairment in associates	26	-	61
Net increase in fair value of investment property	-	-	59
Net decrease in fair value of financial instruments classified as fair value through surplus or deficit	(15)	(128)	(167)
Other	1	5	(29)

5. Derivative financial instruments

Interest rate risk exposures

The group is exposed to interest rate risk as it borrows funds at both fixed and floating rates. The group uses interest rate swaps from time to time to manage these exposures.

The group's total borrowings at 31 December 2012 are $5,495 million (31 December 2011: $4,532 million; 30 June 2012: $5,032 million). To provide certainty of future interest payments, the group has actively entered into both medium and long term interest rate swaps.

The notional values of derivative financial instruments at the reporting date are:

($millions)	As at 31 Dec 2012	As at 31 Dec 2011	As at 30 June 2012
Interest rate swaps			
Cash flow hedges	582	562	942
Not hedge accounted	5,202	4,012	3,987
	5,784	4,574	4,929
Forward foreign exchange contracts			
Cash flow hedges	360	397	385
Not hedge accounted	1	14	3
	361	411	388

At 31 December 2012 the group has forward start interest rate swaps with a notional value of $2,467 million (31 December 2011: $1,885 million; 30 June 2012: $1,295 million). These are included in the notional value of interest rate swaps, above.

Cross currency interest rate swaps not included in the above have a notional value of $238 million (31 December 2011: Nil; 30 June 2012: $200 million).

Selected explanatory notes (unaudited)
(continued)

6. Property, plant and equipment

($millions)	6 months to 31 Dec 2012	6 months to 31 Dec 2011	12 months to 30 June 2012
Additions	1,033	526	1,208
Disposals and transfers to non-current assets held-for-sale	(30)	(8)	(127)
Deconsolidation of Counties Manukau Pacific Trust	(33)	-	-

The group is in the process of revaluing the land and buildings of restricted parks and reserves, and infrastructural water and wastewater asset classes. Any changes in value resulting from revaluations will be reported at 30 June 2013.

For all property, plant and equipment asset classes there have been no indicators of significant changes in fair value and carrying values do not differ materially from fair value.

Additions to 31 December 2012 include the purchase of council head office at 135 Albert Street for $104 million and roads vested to Auckland Transport by the New Zealand Transport Agency for $385 million.

7. Investment in other entities

The following changes have occurred on the group's investments in other entities during the six months to 31 December 2012:

Name of entity	Principal activity	Date of change	Change in % of voting rights	Relationship
Additions				
New Lynn Central Limited Partnership	Property development	19 October 2012	+42%	Joint venture
CONLINXX Limited	Port operator	29 October 2012	+10%	Subsidiary of Ports of Auckland Limited
Deconsolidation due to cancellation of guarantee arrangement				
Counties Manukau Pacific Trust	Stadium operator	1 July 2012	*	Subsidiary of Regional Facilities Auckland ('RFA')
Transfer to disposal group held-for-sale				
New Zealand Food Innovation Auckland Limited	Promote and support food innovation	Transferred to disposal group held-for-sale	Nil	Subsidiary of Auckland Tourism, Events and Economic Development Limited

The impact of the changes to the group's investments in other entities is not significant to the individual balances or results of operations, with the exception of the deconsolidation of Counties Manukau Pacific Trust, resulting in a $33 million reduction of the group's net assets.

*With effect 1 July 2012, the Counties Manukau Pacific Trust ('the trust') ceased to be a subsidiary of Regional Facilities Auckland. The funding agreement which gave rise to the group having control of the trust expired and was not renewed. Consequently the trust's financial statements have not been consolidated into the 31 December 2012 group financial statements.

8. Borrowings

Borrowings have increased by $463 million compared with 30 June 2012. The majority of this increase has been in the form of fixed-rate bonds $283 million, and floating rate notes $125 million, which have been sourced from the New Zealand Local Government Funding Agency $275 million, domestic retail market $275 million, European Medium Term Notes programme $38 million and offset by maturities of $180 million.

The maturity profile of the group's borrowings has lengthened, with approximately 45% maturing within three years (30 June 2012: 51%), 38% maturing between three and seven years (30 June 2012: 34%) and 17% maturing beyond seven years (30 June 2012: 15%).

There were no defaults or breaches on any borrowing arrangement during the period.

Selected explanatory notes (unaudited)
(continued)

9. Provisions

There have been no material changes in provisions between 30 June 2012 and 31 December 2012. Refer to the contingent liabilities note for information about the group's duty of care when issuing building consents.

10. Reconciliation of net surplus (deficit) after tax to net cash inflow from operating activities

($millions)	6 months to 31 Dec 2012	6 months to 31 Dec 2011	12 months to 30 June 2012
Surplus (deficit) after tax	478	(88)	(233)
Add (less) non-cash items:			
Depreciation and amortisation	333	297	623
Vested assets	(442)	(13)	(56)
Movements in derivative instruments	15	128	167
Other non-cash items	(14)	14	29
Other movements:			
Items classified as investing or financing activities	1	(37)	(73)
Movements in working capital items	(83)	(167)	(177)
Net cash inflow from operating activities	**288**	**134**	**280**

11. Capital commitments

The group routinely enters into commitments to acquire and construct assets which support the provision of services. A portion of these projects is managed within the annual plan window and therefore capital commitments at December are routinely higher than June.

($millions)	6 months to 31 Dec 2012	6 months to 31 Dec 2011
Increase in property, plant and equipment	80	100
Increase (decrease) in other	221	(2)

12. Contingent liabilities

Local Government Funding Agency Ltd ('NZLGFA') guarantee

The council is one of 19 shareholders of the NZLGFA. In that regard it has uncalled capital of $2 million. When aggregated with the uncalled capital of other shareholders, $20 million is available in the event of an imminent default. Together with the other shareholders, the council is a guarantor to all of the NZLGFA's borrowings. At 31 December 2012, the NZLGFA had borrowings totalling $1,535 million (30 June 2012: $835 million). The council has a maximum contingent liability of $910 million (30 June 2012: $485 million).

Duty of care building consents

The council has a duty to ensure that buildings comply with the building code. The council currently records a provision against reported and unreported claims related to breaches of this duty of care in relation to residential properties, predominantly for weathertightness issues. The council has no insurance cover for these claims.

On 11 October 2012 the Supreme Court of New Zealand released a decision clarifying that councils owe a duty of care to the owners of all buildings whether they be residential or commercial.

In certain circumstances the council may be liable for the cost of remedying commercial properties which have been issued a code of compliance but are found to have weathertightness issues. The council has no insurance cover for these claims. Where reliable information exists around the likely outcome of reported claims a provision has been made. The council does not have historical claims experience on which to reliably estimate the council's liability with respect to unreported claims for commercial properties. The council has therefore not recorded a provision at 31 December nor is it able to reliably estimate the contingent liability for unreported claims.

From time to time the council receives duty of care claims not related to weathertightness. The council carries insurance cover for these claims.

Contracts for future events

The group has entered into contracts to hold and in some instances underwrite events that will be held in the future. These events include the World Masters Games, V8 Supercars and Volvo Ocean Race. The group allocates funding via the long-term plan to cover the expected net cost of these events, however, if forecast revenues are not achieved then the group may need to provide additional funding.

Selected explanatory notes (unaudited)
(continued)

13. Related party transactions

Key management personnel

Key management personnel are defined in the group's accounting policies. The group enters into transactions such as rates, water charges and the sale of goods or services with key management personnel in the ordinary course of business and on an arm's length basis. No disclosure has been made for these transactions.

During the six months to 31 December 2012 the group has not entered into any significant transactions with entities that are related to the group by virtue of key management personnel having a controlling interest in the related entity.

Transactions with associates and joint ventures

During the six months to 31 December 2012 the group has entered into the following transactions with its associates and joint ventures:

($millions)	6 months to 31 Dec 2012
Rates revenue received	3
Revenue from other services provided	1
Dividends received	18
Loans made to joint ventures during the period	13
Receivables due	4
Loans due	17

14. Events after the reporting period

On 6 February 2013 Mainzeal Property and Construction Limited ('Mainzeal') was placed into receivership. The council and Mainzeal were jointly liable in several weathertightness claims. The council has assessed any additional liability, resulting from Mainzeal's collapse, as being immaterial to the group. Further, the group had contracted Mainzeal to construct a cruise ship terminal at Shed 10 on Queens Wharf. The contractor for this project has been replaced with minimal effect on the project.

There are no other material events after the reporting period requiring adjustment or disclosure in this interim financial report.

Review report

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

INDEPENDENT REVIEWER'S REPORT

TO THE READERS OF AUCKLAND COUNCIL AND GROUP ON THE 31 DECEMBER 2012 CONSOLIDATED INTERIM FINANCIAL STATEMENTS

I have reviewed the consolidated interim financial statements on pages 4 to 16 using my staff and resources. The consolidated interim financial statements provide information about the past financial performance and cash flows of the Auckland Council and its subsidiaries ("the Auckland Council Group") for the six months ended 31 December 2012 and its financial position as at 31 December 2012 and include the notes to the financial statements and the accounting policies referred to on pages 4 to 16.

Review Opinion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the consolidated interim financial statements on pages 4 to 16 do not:

- comply with generally accepted accounting practice; or
- fairly reflect the Auckland Council Group's financial position as at 31 December 2012 and the results of operations and cash flows for the six months ended on that date.

The 31 December 2011 comparative information has not been reviewed or audited

The comparative information contained in the financial statements for the six months ended 31 December 2011 on pages 4 to 16, have not been subject to my review or audit. I am therefore not in a position to, and do not, express any level of assurance on the comparative information for the six months ended 31 December 2011.

Basis of Review Opinion

I carried out the review in accordance with review engagement statement RS-1: *Statement of Review Engagement Standards* issued by the External Reporting Board. A review is limited primarily to enquiries of personnel and analytical procedures applied to the financial data, and thus provides less assurance than an audit. I have not performed an audit and, accordingly, I do not express an audit opinion.

Responsibilities of the Council

The Council is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the consolidated interim financial statements which fairly reflect the financial position of the Auckland Council Group as at 31 December 2012 and the results of operations and cash flows for the six months ended on that date.

My Responsibilities

I am responsible for reviewing the consolidated interim financial statements presented by the Council in order to provide to you an opinion, on the basis of the procedures performed, about whether anything has come to my attention that would indicate that the consolidated interim financial statements do not:

- comply with generally accepted accounting practice; or
- fairly reflect the Auckland Council Group's financial position as at 31 December 2012 and the results of operations and cash flows for the six months ended on that date.

Independence

When carrying out my review, I followed my independence requirements which incorporate the independence requirements of the External Reporting Board.

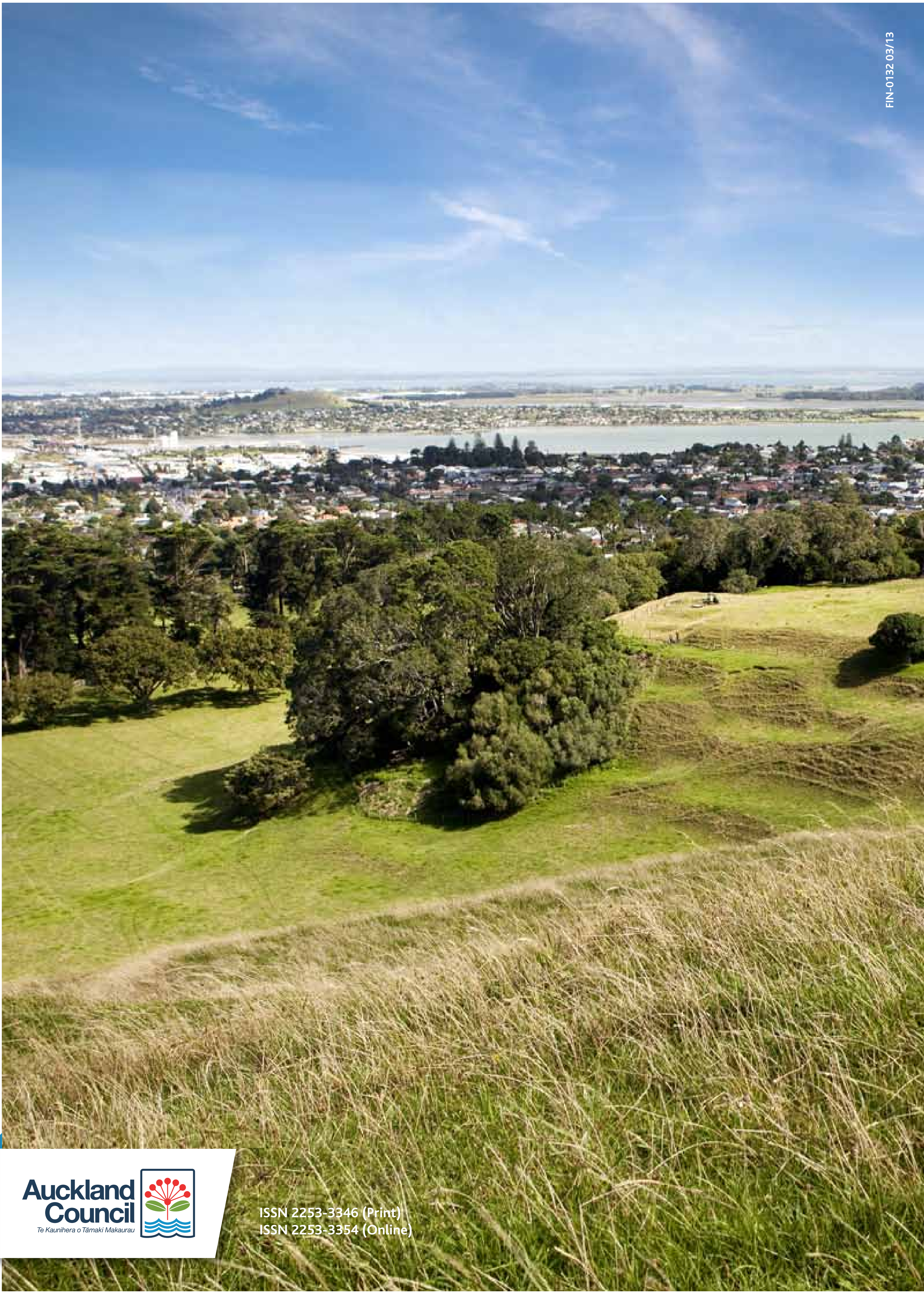
In addition to this engagement, I have carried out the following engagements:

- the audit of the Auckland Council and Group's financial statements, group activity statements, other information and local board reports contained in its annual report for the year ended 30 June 2012;
- the audit of the Auckland Council and Group's 2012 – 2022 Long-Term Plan; and
- a range of other assurance assignments.

These engagements are compatible with my independence requirements. Other than these engagements, and in exercising functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in Auckland Council or any of its subsidiaries.

My review was completed on 1 March 2013 and my review opinion is expressed as at that date.

Lyn Provost
Controller and Auditor-General
Wellington, New Zealand



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Auckland Council
Te Kaunihera o Tāmaki Makaurau

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