

Domestic Investor Presentation Retail Bond Issue



Andrew McKenzie and Mark Butcher
10 March 2014

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Key points

- City's growth trajectory
- Sector strength and institutional framework
- Financial management strategy
 - Council broad powers to tax with rates reset annually to balance operating expenditure with operating income
- Security
 - Ability to appoint a receiver and levy a special rate in the event of a default
- Credit rating
 - "AA" long-term and "A-1+" short-term rating by S&P and Aa2 rating by Moody's
- Current performance
- Debt management approach

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Auckland and New Zealand



Source: Auckland Council

- New Zealand's largest city
 - 1.5m people
 - 34% of New Zealand's population
- World's 3rd most liveable city (Mercer Survey)
- Infrastructure ranks 43rd
- GDP of Auckland region is NZ\$75bn (37% of New Zealand GDP)
- Auckland GDP has increased for 15 consecutive quarters
- New Zealand's fastest growing city
 - Population expected to increase by 47% to 2.2m by 2041

Auckland Council

- Established 1 November 2010, merging 8 councils
- Governing Body and 21 Local Boards
- Largest Council in Australasia with 8,000 employees
- Seven major subsidiaries
 - Auckland Transport – All roads and transport activities
 - Auckland Council Investments Limited - Manager of investments
 - Auckland Council Property Limited – Manager of commercial properties
 - Auckland Tourism, Events and Economic Development Limited – Economic development, tourism and events promotion
 - Regional Facilities Auckland – Auckland arts, culture, leisure and sports facilities
 - Waterfront Auckland – Own, manage and develop waterfront properties
 - Watercare Services Limited – Wholesale and retail water and wastewater services

Responsibilities

- Smaller range of services than municipalities internationally
- No defined benefit pension liabilities

Central Government	Mixture of Central and Local Government Funding	Local Government
Education (primary, secondary and tertiary provision)	Public transport operation (typically 53% from Central Government)	Water, wastewater and stormwater
Public healthcare and hospitals	Rail infrastructure (negotiated)	Rubbish and recycling collection and disposal
Fire services	Local roads (construction, maintenance, cleaning)	Street cleaning
State highways	Public housing	Health / Sanitation Inspections
Police and corrective facilities		Building inspections
Pensions and welfare		Public facilities (parks, recreation facilities, swimming pools, sports fields)

Prudent financial management

- Strategy requirements for “prudent stewardship”
- Accounting regime
 - New Zealand IFRS compliant
- Reporting
 - June financial year end with annual and six-monthly interim financials
- Extensive and transparent planning requirements
- Consultation
- Auditing
 - Office of the Auditor General of New Zealand appoints auditors (Audit New Zealand)

Balanced budget

- Budgetary process in setting rates each year as part of Annual Plan
forecast Expenditure (including depreciation and interest)
less forecast Other Income (excluding funding for capital projects)
equals **Total Rates to Collect**
- Debt primarily used to finance new assets
- Cash collected to fund depreciation used for renewals and to reduce debt

Rates certainty

- Rates not affected by level of economic activity or property market
- 98% collected within the year they are due with most of the balance collected within the next two months
- Local Government councils have broad powers to tax (rate) properties
 - No upper limit on rates income
 - Rate collection ranks ahead of all other claimants on a property including Inland Revenue Department and mortgagees
- Every three years the Capital Value (“CV”) of all properties in the region is calculated and then used for each of the following three rating years
- Each year the required rate per NZ\$1 of Capital Value is determined as part of budget process to ensure a balanced operating budget is achieved.

Illustrative example of rate setting process

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Forecast Total Rates to Collect (NZ\$ bn)	1.22	1.287	1.363	1.447	1.538	1.636	1.748	1.863	1.989	2.212
CV of all properties in region (NZ\$ bn)	354	354	354	450	450	450	400	400	400	500
Rates levied per NZ\$1 of CV	0.0034	0.0036	0.0039	0.0032	0.0034	0.0036	0.0044	0.0047	0.0050	0.0044

Rates revenue required to be collected (from Long Term Plan)

For illustration purposes CV is assumed to have increased and decreased

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Interim Financial Statements - 31 December 2013

Group operating surplus up

For the period (\$m)	6 months to Dec 2013	6 months to Dec 2012	12 months to June 2013
Operating surplus/ (deficit)	161	63	64
Surplus/ (deficit) after tax	336	478	246

Interim Financial Statements - 31 December 2013

Group revenues up

For the period (\$m)	6 months to Dec 2013	6 months to Dec 2012	12 months to June 2013
Rates revenue	775	745	1,337
Services and other revenues	927	826	1,725
Total revenue	1,702	1,571	3,062

Interim Financial Statements - 31 December 2013

Group total expenditure in line

For the period (\$m)	6 months to Dec 2013	6 months to Dec 2012	12 months to 30 June 2013
Total expenses	1,366	1,336	2,671
Net finance expense	175	172	327
Total	1,541	1,508	2,998

Interim Financial Statements - 31 December 2013

Group balance sheet strong

As at (\$m)	31 Dec 2013	31 Dec 2012	30 June 2013
Cash	342	308	336
Total assets	37,431	36,533	37,055
Total borrowings	6,138	5,495	5,884
Equity	29,158	28,718	28,828

Interim Financial Statements - 31 December 2013

Group operating cash flow strong

For the period (\$m)	6 months to Dec 2013	6 months to Dec 2012	12 months to June 2013
Operating cash flow	411	288	572
Investing cash flow	(657)	(655)	(1,302)
Funding cash flow	254	463	851

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Council's debt issuance in 2013

- 2013 calendar year debt issuance of NZ\$1.3 billion across 19 issues
 - \$759 million refinancing and \$541 million new borrowing
 - 3 new issues and 16 taps into existing issues (LGFA, CHF, AUD and NZ Government)
 - NZD 55%, CHF 20%, NOK 23% and AUD 2%
- Extended average term of debt portfolio from 5.0 years (Dec 2012) to 6.3 years (Dec 2013)
- Issued to the following investor groups in 2013



Borrowing and liquidity limits

As at	December 2013	June 2013	June 2012
Net debt as a percentage of total revenue not to exceed 275 per cent.	160%	149%	148%
Net interest as percentage of total revenue not to exceed 15 per cent.	10.6%	9%	7%
Net interest as a percentage of annual rates income not to exceed 25 per cent.	18%	18%	11%
Liquidity (cash and liquid investments plus headroom under committed funding facilities to at least equal rolling six month forecast net cash outflow, including maturing debt).	154%	185%	167%

Liquidity

(\$million)	December 2013	June 2013	June 2012
Cash and liquid investments	305	288	172
Committed borrowings	219	190	50
Committed facility headroom	1,010	1,040	845
Diversified Financial Assets portfolio (adjusted)	249	230	212
Total liquidity	1,783	1,748	1,279
Forecast 6 months net cash outflow	1,158	947	768
Headroom for 6 months	625	801	511

Debt profile – 31 December 2013

Debt Composition (Parent)		
	\$million	%
Bank facilities	0	0
Commercial paper	175	4
Retail bonds	1,071	21
Wholesale bonds	1,714	34
Crown EMU facility	212	4
LGFA	1,025	21
Offshore Funding	815	16
Total	5,012	100

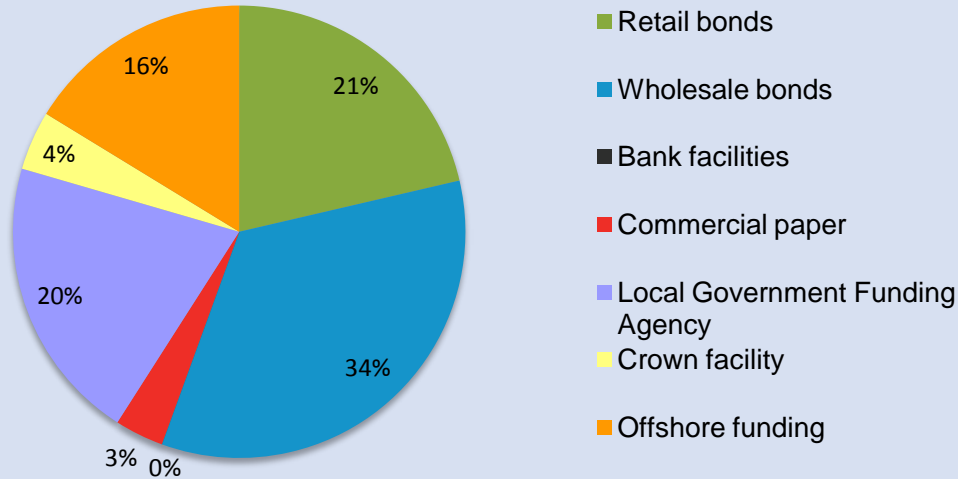
Basis	Physical debt		With swaps	
	\$million	%	\$million	%
Fixed	2,691	54	4,298	86
Floating	2,321	46	714	14
Total	5,012	100	5,012	100

Debt maturity profile	Policy	\$million	%
Maturing between 0 and 3 years	15% to 60%	1,680	33
Mature between 3 and 7 years	20% to 60%	1,700	34
Mature beyond 7 years	10% to 65%	1,632	33
Total		5,012	100

Analysis of current debt portfolio

As at 31st December 2013

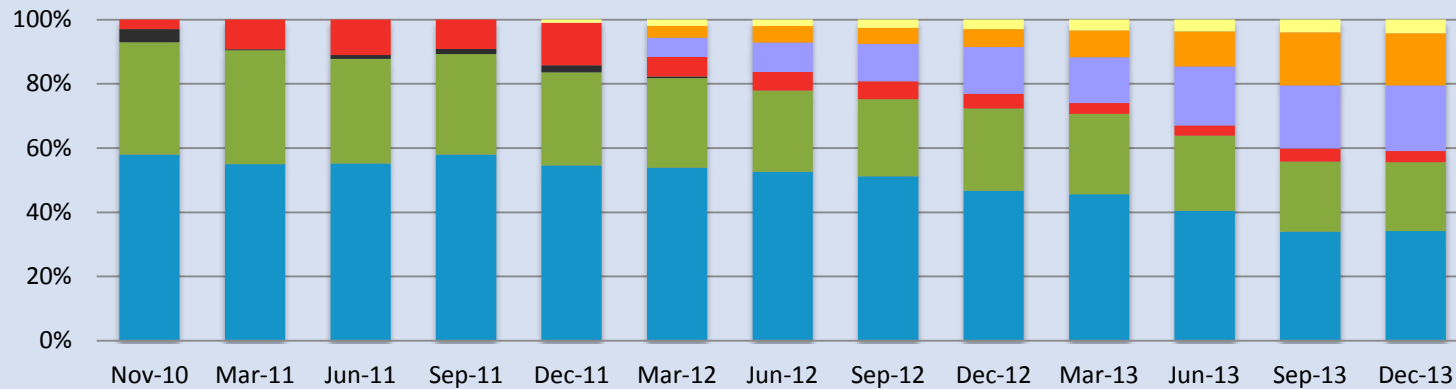
By Programme



- 52 debt issues
 - 3 offshore
 - 5 NZX retail
 - 44 domestic
- 13,186 investors

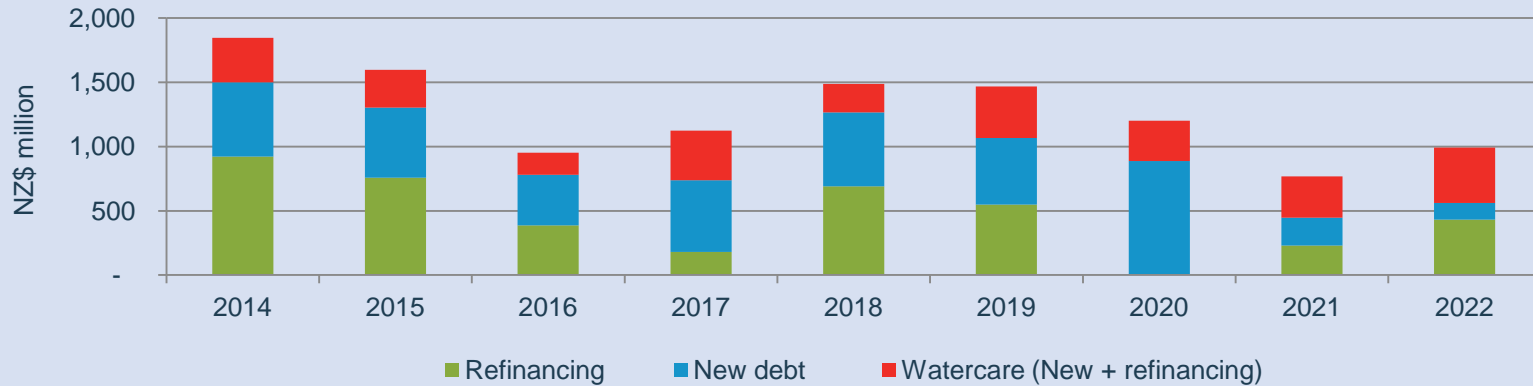
* Debt issues and number of investors are based on 30 June 2013

Historical funding mix

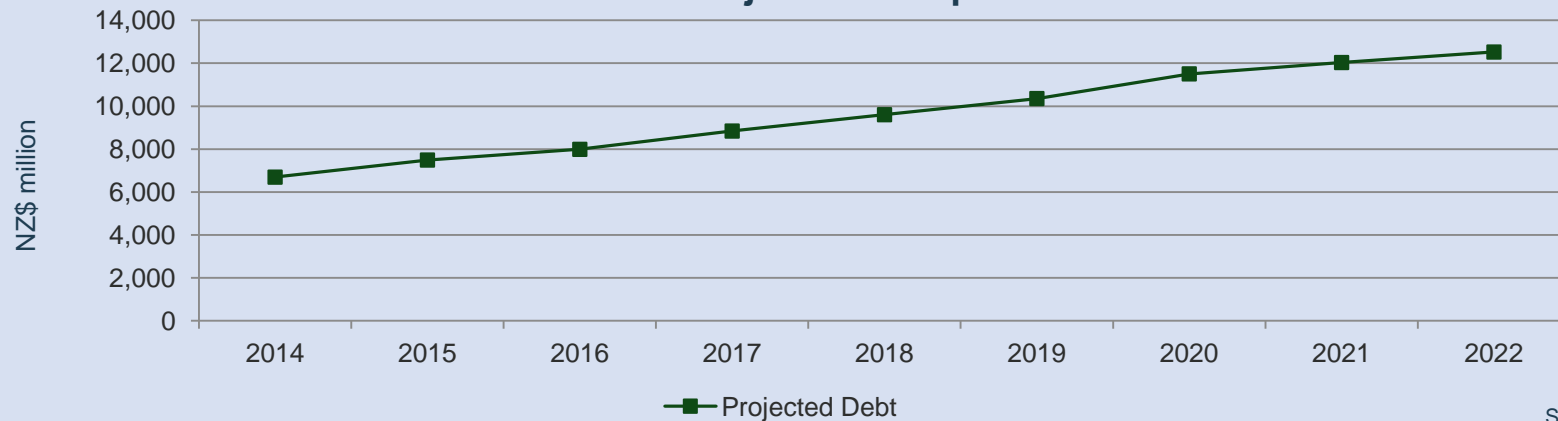


Forecast borrowing and debt levels

Annual forecast Group borrowing

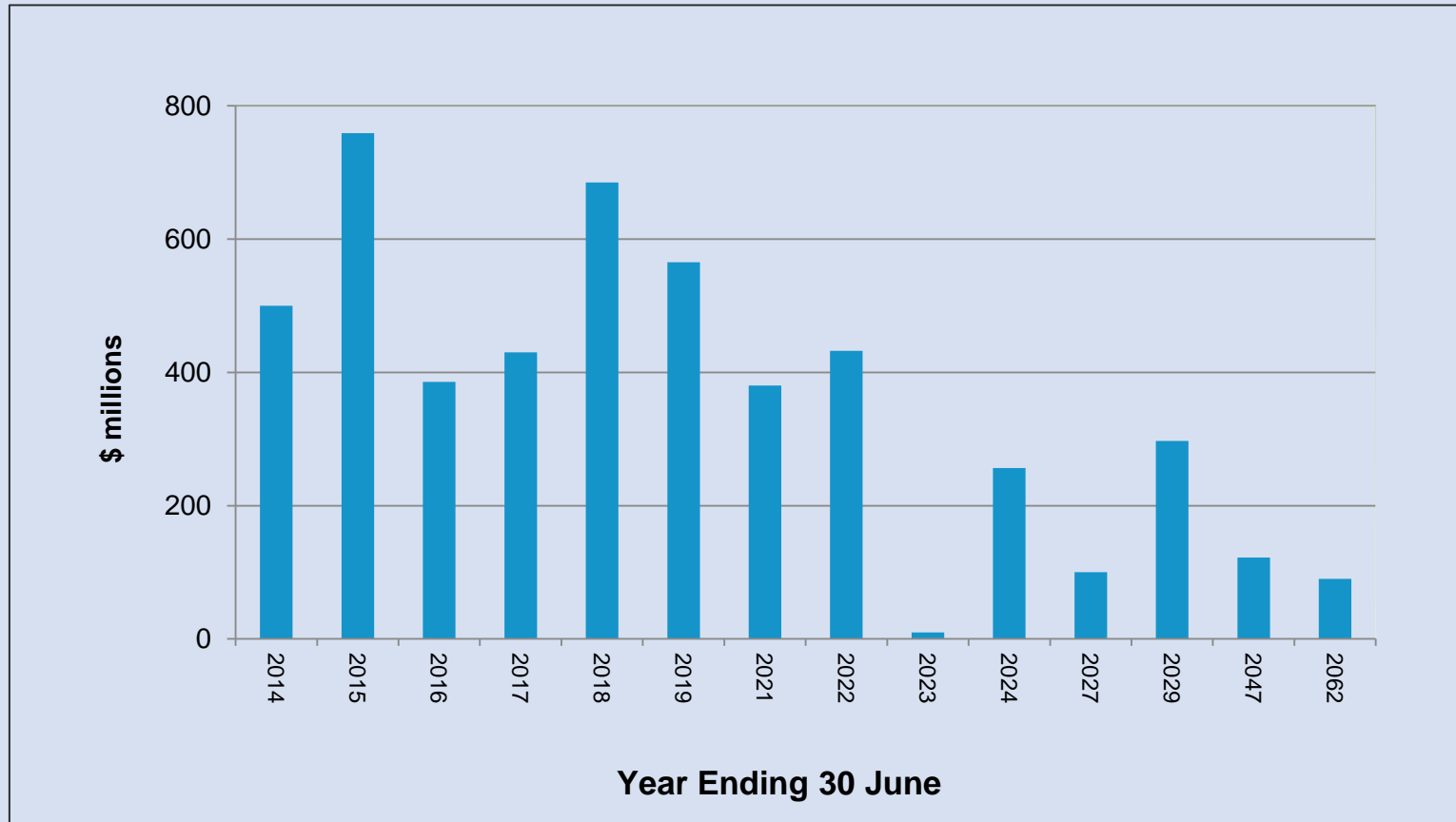


Projected Group debt



Source: LTP and Annual plan

Auckland Council existing maturity profile



Bank standby facilities and liquid investments total \$1.8 billion as at 31 December 2013

Issuance strategy

- Funding requirement projected to be NZD 1 billion per annum for 2014-2018 period
 - Funding targets are against floating rate
 - Preference for long dated funding to match long dated assets
 - Diversify across markets to reduce reliance on domestic funding
- Domestic Funding
 - \$4 billion retail debt programme established with future domestic issuance expected under this structure
 - Existing wholesale issues and 5 NZDX listed retail issues to remain
 - Improved liquidity by increasing existing tranche sizes and consolidation of existing maturities
 - Local Government Funding Agency
- Offshore funding
 - Agnostic in terms of market or currency – but hedged back into NZD
 - Preferred issue size is to a maximum of NZD 400 million
 - Open to private placement under reverse enquiry

Credit rating

- “AA” long-term and “A-1+” short-term rating by S&P and “Aa2” by Moody’s. Both ratings affirmed in November 2013.
- Two key risks to manage
 - Ability to service existing debt - mitigated by rates certainty, expenditure control and hedging strategy
 - Refinancing - mitigated by diversification of funding sources, bank standby facilities and investments
- Operating budget is balanced every year and rates are reset on an annual basis to ensure balanced budget
- Debt Strategy Objectives
 - Manage refinancing risk
 - Lengthen maturity profile
 - Reduce debt servicing costs

Security

- Charge over rates and future rates income
- All bondholders have benefit of a Debenture Trust Deed
- Rates rank ahead of all other claimants on a property including Inland Revenue Department and mortgagees
- If Council was to default – expect that a Commissioner appointed and a special rate levied
- Strong institutional framework and relationship with Central Government

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Summary of terms and conditions

Issuer:	Auckland Council
Issuer Ratings:	Aa2 (stable) / AA (stable)(Moody's / S&P)
Expected Issue Ratings:	Aa2 / AA (Moody's / S&P)
Issue Amount:	Up to NZ\$150 million of secured, unsubordinated fixed rate bonds ("Bonds") with the right to accept oversubscriptions of up to NZ\$ 50 million
Use of Proceeds:	For general corporate purposes
Security	Charge over all rates from time to time set or assessed by Council and all rates revenue of Council and certain proceeds of such assets, being proceeds which constitute accounts receivable and negotiated instruments or cash
Repo-eligibility:	Application will be made to the RBNZ for the Bonds to be included as Eligible Securities for Domestic Market Operations
Principal Amount:	NZ\$1.00 per Bond
Minimum Subscription Amount:	NZ\$5,000 and thereafter in multiples of NZ\$1,000
Book Runner and Organising Participant	ANZ
Joint Lead Managers:	ANZ, BNZ and Westpac

Summary of terms and conditions (continued)

Maturity Date:	Monday, 25 March 2024
Indicative Issue Margin:	0.80%-0.83% per annum
Base Rate:	Ten-year semi annual mid swap rate with reference to the Reuters page ICAPAUKIWISWAP on the interest set date, rounded to the nearest three decimal places
Interest Rate:	Base Rate plus Issue Margin
Issue Price:	NZ\$1.00 per bond
Interest Payment Dates:	25 March and 25 September in each year up to and including the Maturity Date
Listing:	NZDX ¹
Expected Date of Initial Quotation and Listing:	Wednesday, 26 March 2014

¹ Application has been made to NZX for permission to quote the bonds on the NZDX and all the requirements of NZX relating to that application that can be complied with on, or before the date of this presentation have been duly complied with. However, NZX accepts no responsibility for any statement in this presentation. NZX is a registered exchange and NZDX is a registered market, each regulated under the Securities Markets Act 1988.

Timetable – Key transaction dates

Roadshow	Monday, 10 March 2014 (Wellington & Auckland)
Bookbuild Opens	Tuesday, 11 March 2014
Bookbuild Closes	Friday, 14 March 2014, firm bids by 10.00 am
Interest Rate Set Date	Friday, 14 March 2014
Offer Opening Date	Friday, 14 March 2014
Offer Closing Date	Friday, 21 March 2014 at 12.00 pm
Issue Date	Tuesday, 25 March 2014
Expected date of initial quotation and trading on NZDX	Wednesday, 26 March 2014
First Interest Payment Date	Thursday, 25 September 2014

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Statement of Financial Position

As at 31 December 2013

\$millions	Unaudited as at 31 Dec 2013	Unaudited as at 31 Dec 2012	Audited as at 30 Jun 2013
ASSETS			
Current assets			
Cash and cash equivalents (excluding bank overdrafts)	342	308	336
Receivables and prepayments	242	264	275
Other financial assets	333	311	331
Derivative financial instruments	2	-	4
Inventories	18	19	18
Non-current assets held for sale	32	24	42
Total current assets	969	926	1,006
Non-current assets			
Receivables and prepayments	104	117	97
Other financial assets	92	82	86
Derivative financial instruments	178	37	75
Property, plant and equipment	34,507	33,894	34,212
Intangible assets	415	359	403
Biological assets	2	4	2
Investment property	433	371	421
Investment in associates and jointly-controlled entities	751	743	753
Total non-current assets	36,482	35,607	36,049
Total assets	37,451	36,533	37,055

Source: Auckland Council Group Interim Report 31 December 2013

Statement of Financial Position (Cont.)

As at 31 December 2013

\$millions	Unaudited as at 31 Dec 2013	Unaudited as at 31 Dec 2012	Audited as at 30 Jun 2013
LIABILITIES			
Current liabilities			
Employee entitlements	75	77	71
Payables and accruals	393	436	539
Borrowings	1,200	927	1,290
Derivative financial instruments	21	12	13
Tax payable	-	8	10
Provisions	71	105	94
Total current liabilities	1,760	1,565	2,017
Non-current liabilities			
Employee entitlements	6	7	6
Payables and accruals	31	10	26
Borrowings	4,938	4,568	4,594
Derivative financial instruments	162	370	215
Provisions	393	412	394
Deferred tax liabilities	1,003	883	975
Total non-current liabilities	6,533	6,250	6,210
Total liabilities	8,293	7,815	8,227
Net assets	29,158	28,718	28,828
EQUITY			
Contributed equity	26,734	26,315	26,734
Accumulated funds	236	182	(58)
Reserves	2,188	2,221	2,152
Total ratepayer equity	29,158	28,718	28,828
Non-controlling interest	-	-	-
Total equity	29,158	28,718	28,828

Source: Auckland Council Group Interim Report 31 December 2013

Statement of Comprehensive Income

For the six months ended 31 December 2013

\$millions	Unaudited 6 months to 31 Dec 2013	Unaudited 6 months to 31 Dec 2012	Audited 12 months to 30 Jun 2013
Revenue			
Rates	775	745	1,337
Fees and user charges	502	472	952
Operating grants	114	121	225
Capital grants	90	65	165
Development and financial contributions	47	29	64
Other	174	139	319
Total revenue	1,702	1,571	3,062
Expenses			
Employee benefits	357	353	693
Depreciation and amortisation	358	333	681
Grants, contributions and sponsorship	87	74	108
Other	564	576	1,189
Total expenses	1,366	1,336	2,671
Finance income	(6)	(4)	(18)
Finance expense	181	176	345
Net finance expense	175	172	327
Operating surplus/(deficit)	161	63	64
Assets vested by the Crown	-	385	385
Net other gains/(losses)	171	11	(230)
Share of surplus/(deficit) in associates and jointly-controlled entities	21	18	41
Surplus/(deficit) before income tax	353	477	260
Income tax (benefit)/expense	17	(1)	14
Surplus/(deficit) after income tax	336	478	246
Total other comprehensive income/(loss)	(6)	11	199
Total comprehensive income	330	489	445

Source : Auckland Council Group Interim Report 31 December 2013

Statement of Cash Flows

For the six months ended 31 December 2013

\$millions	Unaudited 6 months to 31 Dec 2013	Unaudited 6 months to 31 Dec 2012	Audited 12 months to 30 Jun 2013
Cash flows from operating activities			
Receipts from customers, rates, grants and other services	1,589	1,500	2,879
Interest received	5	4	18
Dividends received	24	20	42
Payments to suppliers and employees	(1,026)	(1,085)	(2,047)
Interest paid	(181)	(151)	(320)
Net cash inflow from operating activities	411	288	572
Cash flows from investing activities			
Advances to related parties	-	(14)	(17)
Sale of property, plant and equipment, investment property and intangible assets	5	8	18
Purchase of property, plant and equipment, investment property and intangible assets	(684)	(636)	(1,315)
Equity investment in subsidiaries and associates	-	(1)	(4)
Acquisition of other financial assets	1	(19)	(10)
Proceeds from sale of other financial assets	25	12	32
Advances to external parties	(4)	(5)	(6)
Net cash inflow/(outflow) from investing activities	(657)	(655)	(1,302)
Cash flows from financing activities			
Proceeds from borrowings	895	670	1,260
Repayment of borrowings ¹	(640)	(205)	(406)
Repayment of finance lease principal	(1)	(2)	(3)
Net cash inflow/(outflow) from financing activities	254	463	851
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	8	96	121
Opening cash and cash equivalents and bank overdrafts	333	212	212
Closing cash and cash equivalents and bank overdrafts	341	308	333

Source: Auckland Council Group Interim Report 31 December 2013

Auckland is 3rd most livable city but 43rd in infrastructure

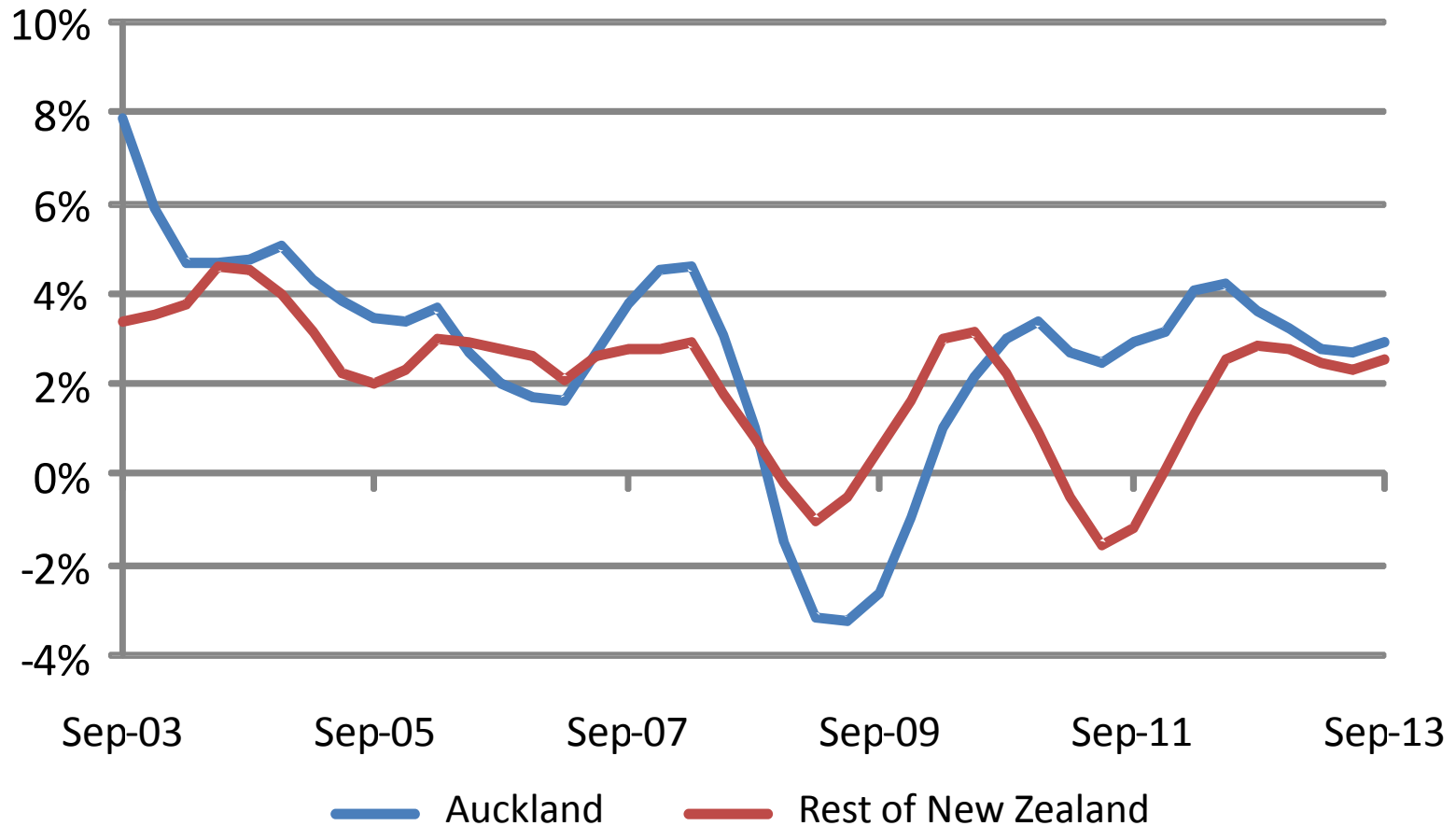
Mercer Quality of Living Survey - Worldwide Rankings, 2013		
Rank	City (Infrastructure Rank)	Country
1	Vienna (16)	Austria
2	Zurich (24)	Switzerland
3	Auckland (43)	New Zealand
4	Munich (2=)	Germany
5	Vancouver (9=)	Canada
6	Düsseldorf (5)	Germany
7	Frankfurt (2=)	Germany
8	Geneva (47)	Switzerland
9	Copenhagen (4)	Denmark
10=	Bern (25)	Switzerland
10=	Sydney (8)	Australia
12	Amsterdam (23)	Netherlands
13	Wellington (48)	New Zealand
14	Ottawa (25)	Canada
15	Toronto (16)	Canada
16	Berlin (29)	Germany
17=	Hamburg (9=)	Germany
17=	Melbourne (34)	Australia
19	Luxembourg (-)	Luxembourg
20	Stockholm (18)	Sweden

Mercer Infrastructure Worldwide Rankings, 2012		
Rank	City	Country
1	Singapore	Singapore
2=	Frankfurt	Germany
2=	Munich	Germany
4	Copenhagen	Denmark
5	Düsseldorf	Germany
6	Hong Kong	Hong Kong
7	London	United Kingdom
8	Sydney	Australia
9=	Hamburg	Germany
9=	Vancouver	Canada

Auckland's quality of living has been in the top five cities in the world for the last five years, according to the Mercer Quality of Living Survey.

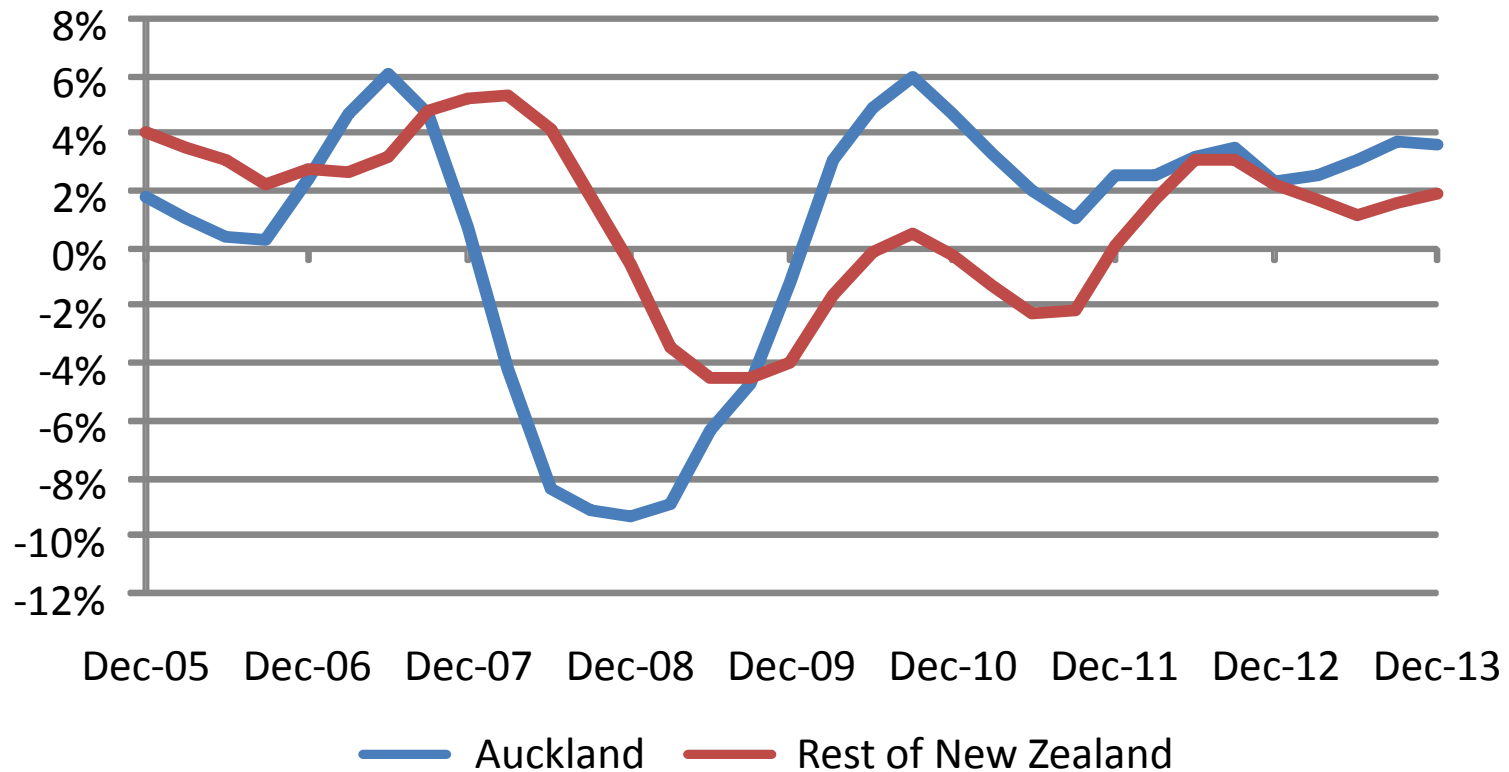
This indicates that, overall, Auckland offers a good lifestyle with high-quality amenities.

GDP growth (annual average, constant prices)



Source: Infometrics

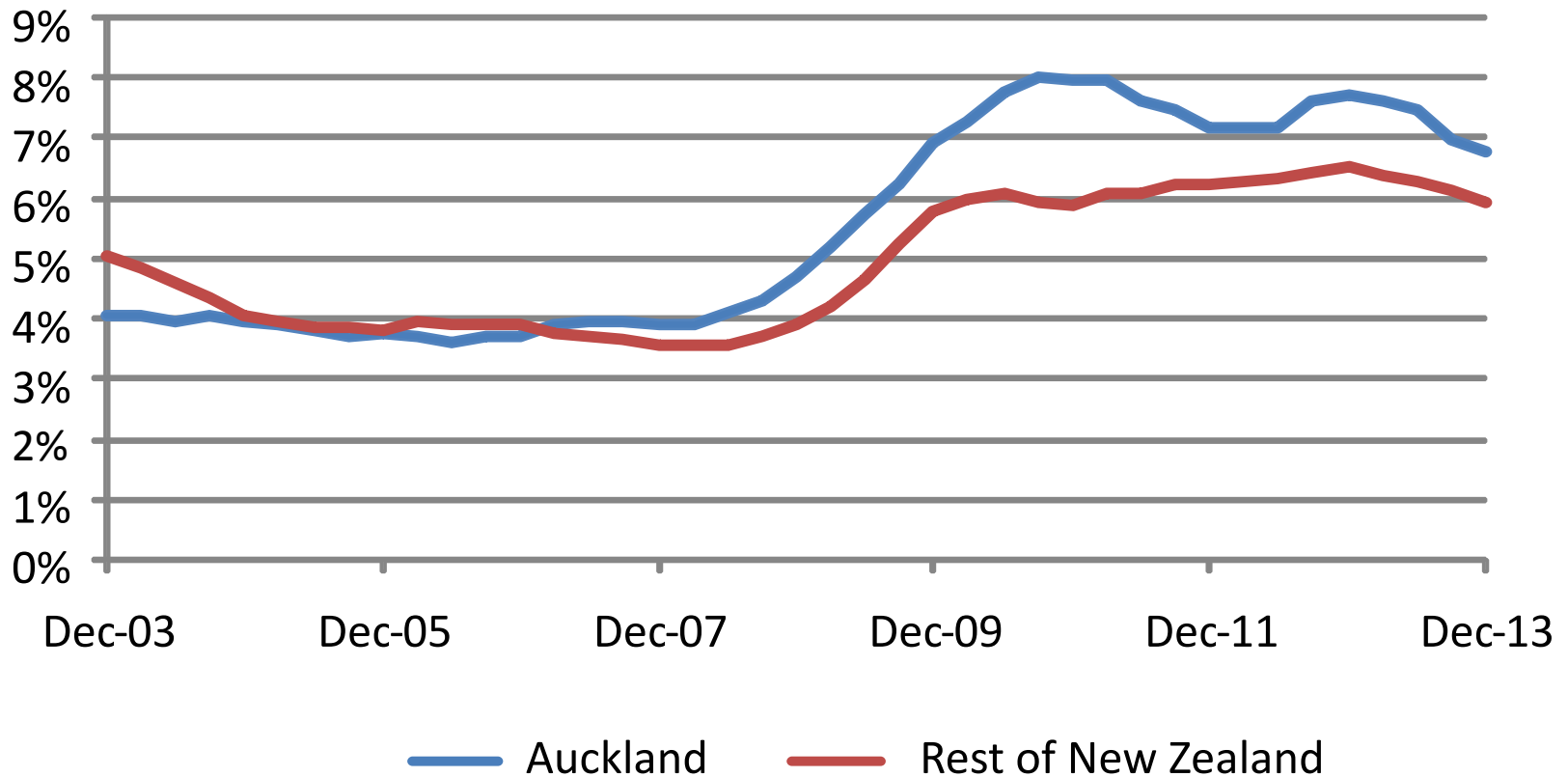
Retail sales volumes (annual percentage growth)



Source: Statistics New Zealand

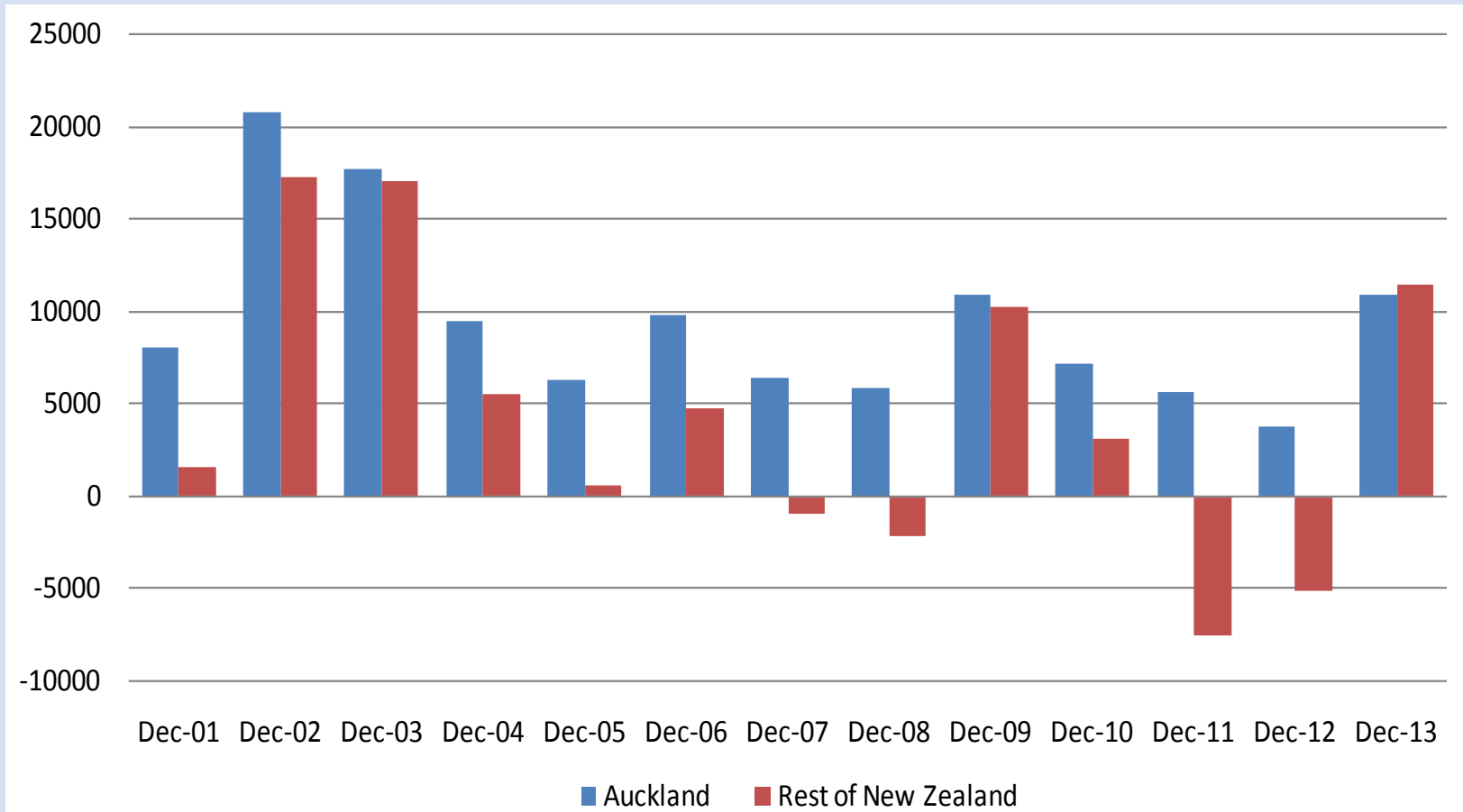
Unemployment rates

Annual average, calendar years



Source: Statistics New Zealand

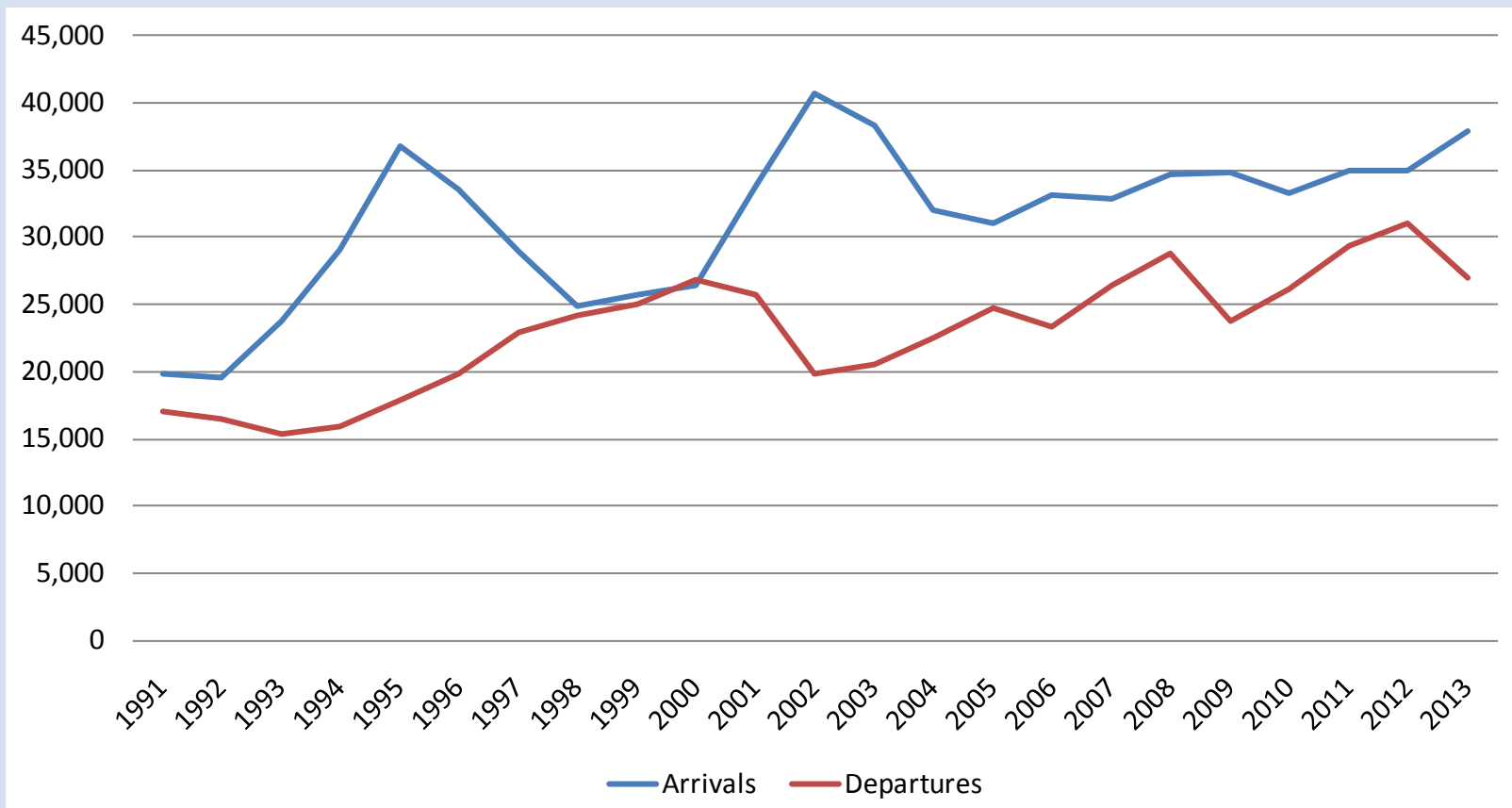
Net migration (year to December)



Source: Statistics New Zealand

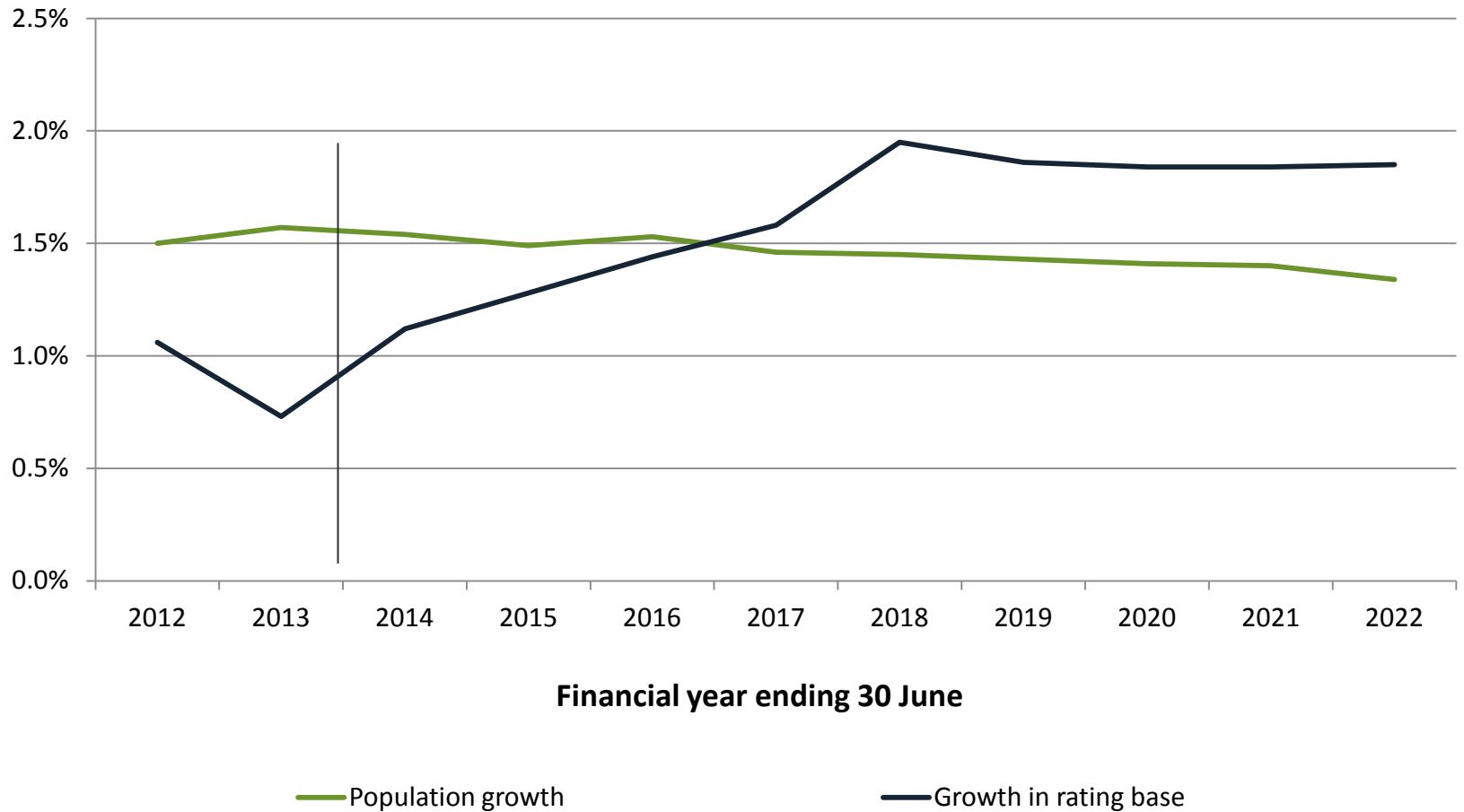
Long term permanent migration – Auckland

(Year to December)



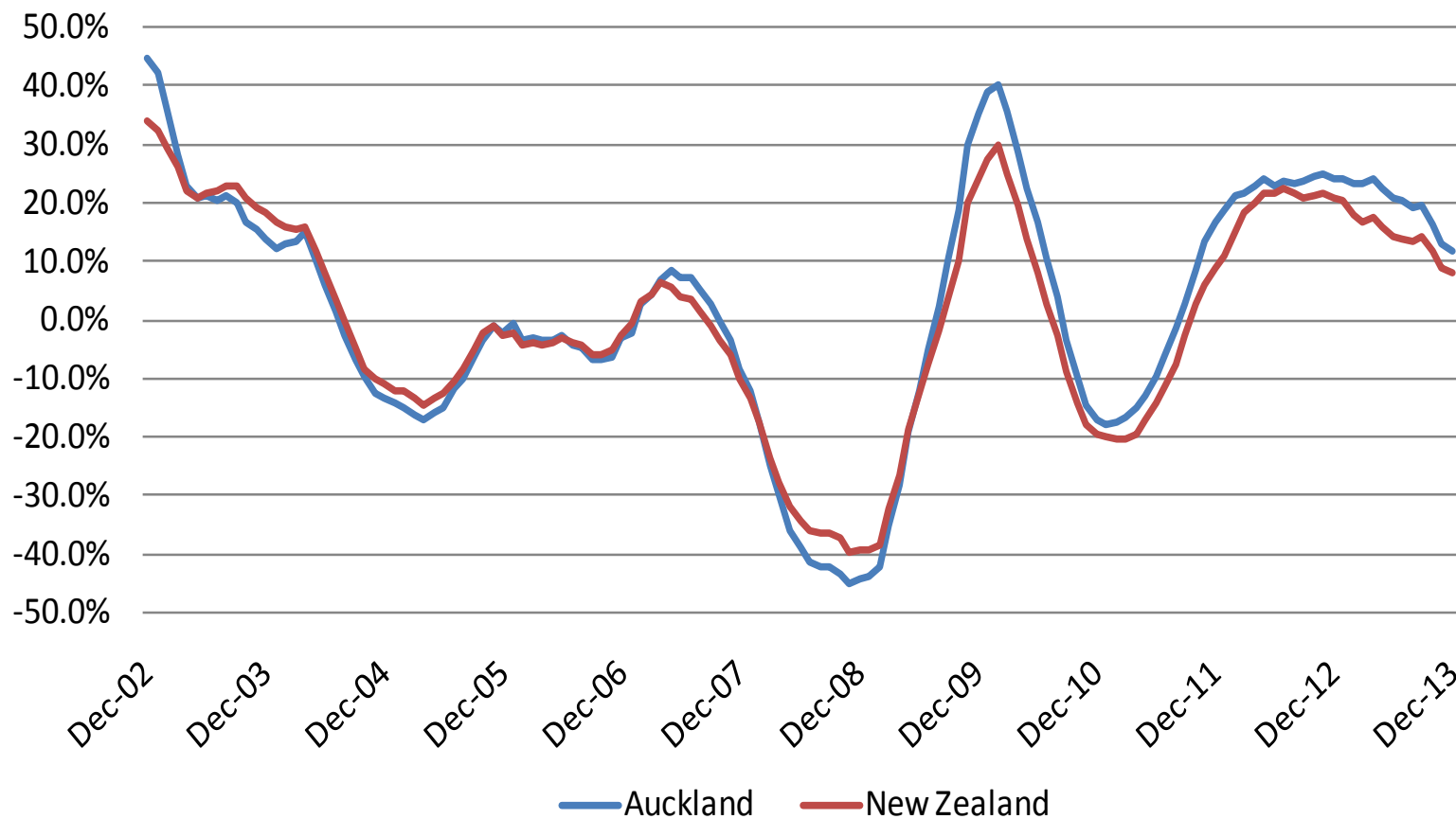
Source: Statistics New Zealand

Population and rating base growth



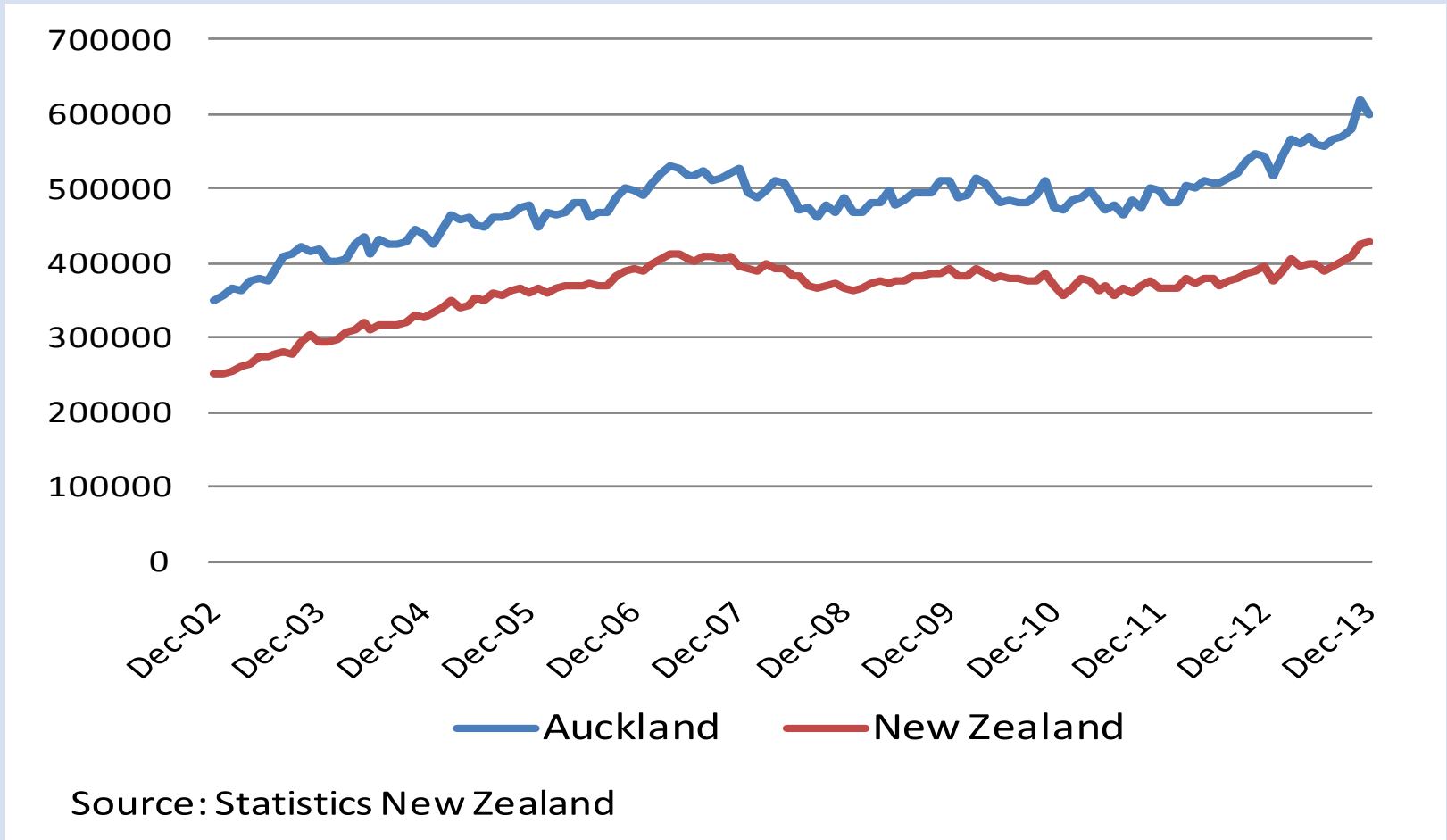
Number of house sales – percentage change

Year end December



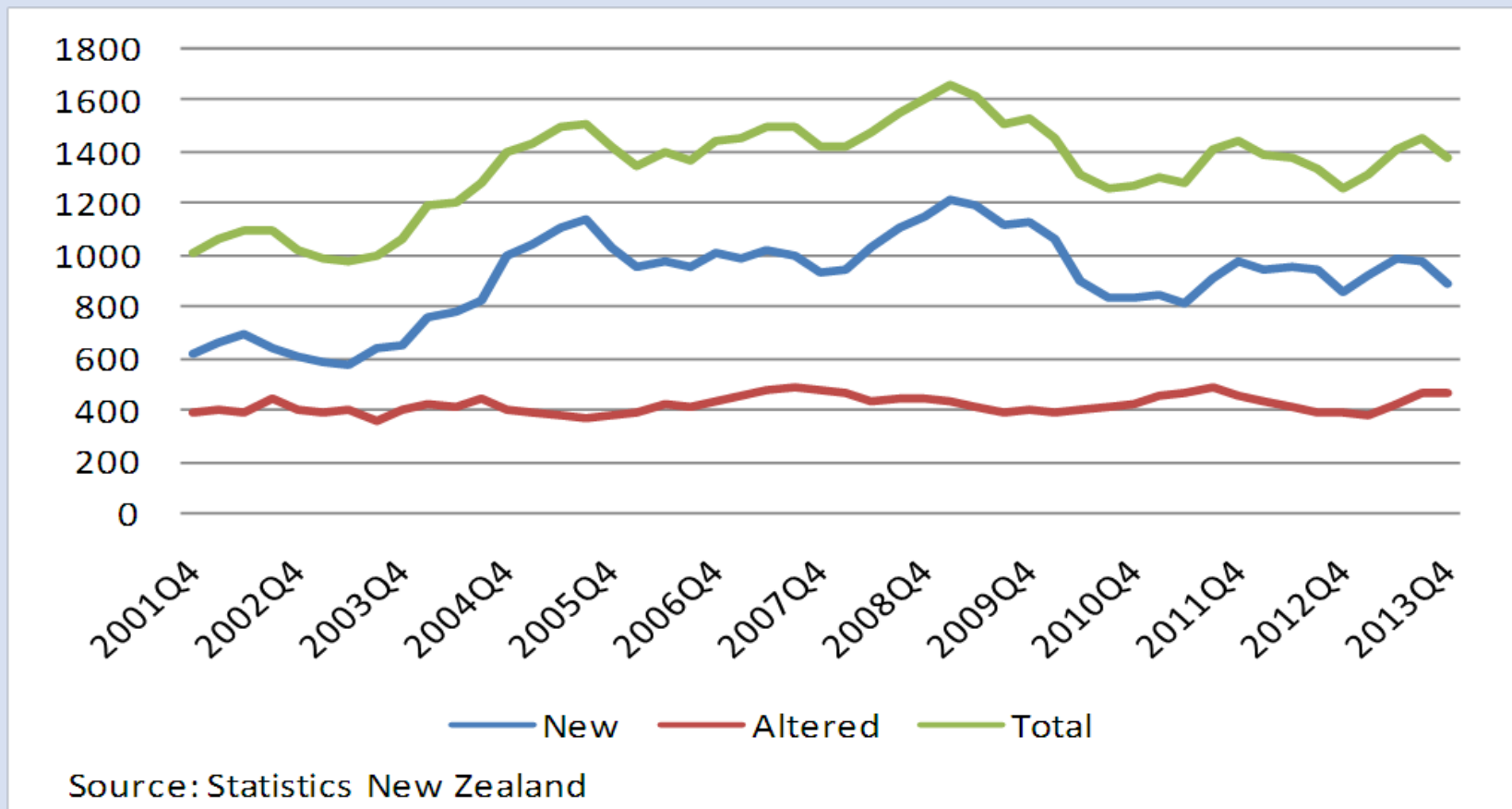
Source: Statistics New Zealand

Median residential house sales price (real)



Auckland non-residential building consents

Value in \$million, moving annual totals



Website Links

Auckland Council Investor Centre:

<http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/businessandeconomy/Pages/investorcentre.aspx>

Auckland Plan:

http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/theaducklandplan/Pages/theaducklandplan.aspx?utm_source=shorturl&utm_medium=print&utm_campaign=Auckland%2BPlan

Long Term Plan 2012 - 2022:

http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/Long_term_plan/Pages/documents.aspx?utm_source=plansandstrategieslandingpage&utm_medium=topcontent&utm_campaign=landingpages

2012-13 Annual Report:

http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/reports/annual_report/Pages/annualreport20122013.aspx

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- Applications for the Bonds may only be made by completing and lodging the Application Form enclosed with the Investment Statement. The Investment Statement is an important document and should be read carefully. Investors should consider the risks that are associated with an investment in the Bonds, particularly with regard to their personal circumstances (including financial and tax issues). A summary of the principal risks associated with the Issuer and the Bonds are set out in the Investment Statement under the heading "*What are my risks?*".
- This document does not constitute an offer of Bonds in any jurisdiction other than New Zealand or in other jurisdictions where the Bonds may be lawfully offered. No action has been taken by the Issuer which would permit an offer of Bonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). No person may purchase, offer, sell, distribute or deliver the Bonds or have in its possession, or distribute to any person, any offering material or any documents in connection with the Bonds in any jurisdiction other than in compliance with all applicable laws and regulations.
- Application has been made to NZX for permission to quote the Bonds on the NZDX market. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this document. NZX is a registered exchange, and the NZDX is a registered market, under the Securities Markets Act 1988.
- The Bonds offered are debt securities and constitute secured, fixed rate debt obligations of the Issuer secured by a charge over all rates and rates revenue of Auckland Council. The security is first ranking, except to the extent that other security is preferred by law (including security interests that may have priority under the Personal Property Securities Act). A detailed description of the security provided for the Bonds is contained in the Investment Statement. The Bonds will rank equally and without any preference among themselves and equally with all other secured indebtedness of the Issuer, except indebtedness preferred by law. Neither the redemption of, nor the payment of interest on, the Bonds is guaranteed by the Crown or by any other person.
- To receive a copy of the Investment Statement relating to the Bonds please call ANZ on 0800 269 476 or Bank of New Zealand on 0800 248 017 or Westpac on 0800 942 822, or a copy can be obtained from www.aucklandcouncil.govt.nz.