

12 December 2018

The Chief Executive Officer
Auckland Council
Private Bag 92300
AUCKLAND, 1142

Attention: Mr Stephen Town

Dear Steven,

RE: EDEN PARK \$40,000,000 ASB LOAN, AS GUARANTEED BY AUCKLAND COUNCIL (the Loan)

Thank you for your letter of 10 December 2018 in which you propose a workshop is arranged in the New Year between the Trustees of The Eden Park Trust (the Trust) and Councillors to discuss the long term future of the Loan and the Trust's future funding requirements. You further proposed that you seek approval to extend the Council's guarantee of the Loan for a further six months. You asked me how the Trust would like to proceed.

Having taken these proposals into consideration, the Trust would prefer not to make a further request to the ASB to extend the Loan facility as you have proposed. Instead the Trust would prefer that you seek authority from Councillors to request an assignment of the Loan from the ASB to Council, and thereby assume all rights and securities in relation to the Loan, in place of the ASB as lender. We make this request for the following reasons (following the chronology of events):

1. Councillors clearly demonstrated their support for Council acquiring the loan, on commercial terms, by passing Finance and Performance Committee resolution number FIN/2018/76 on 15 May 2018.
2. Pursuant to that resolution, in late September Council appointed the accounting firm EY to prepare an independent report into the finances of the Trust. The Trust's CEO and CFO engaged and co-operated with EY in the understanding that the report was necessary to facilitate conclusion of the matters proposed in the resolution.
3. This intention was further demonstrated when Council CFO wrote to the ASB on 26 September 2018 advising that Council did not intend to offer an extension of its guarantee of the Loan beyond the facility's 30 September 2019 expiry.
4. In response, the ASB wrote to the Trust on 28 September 2018 advising they would not grant the Trust's prior request (on 22 June 2018, in accordance with the requirements of the facility) to extend the term of the facility for two years from 30 September 2019.
5. The Trust wrote to the Council CFO on 18 October 2018 seeking further clarification of the Council's position with respect to the future of the Loan, as this was likely to be a matter of significance upon the annual audit of the Trust's accounts by the OAG (through their agent, Messrs Grant Thornton), as at 31 October 2018.
6. As there was no resolution of the Loan by 31 October 2018, it will be classified as a Current Liability in the Trust's annual report, regardless of any subsequent event in relation to it. This classification,

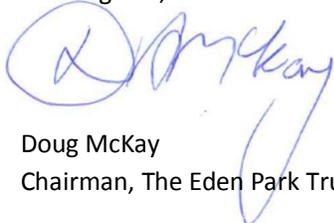
taken alone, brings into question the Trust's ability to meet its debts as they fall due and therefore requires clarification in the notes and the Audit Opinion.

7. Your proposal to extend the guarantee does not resolve the inherent uncertainty over the future of the Loan. The Audit Opinion is therefore likely to include reference to the "Material Uncertainty" over the future of the Loan, as matters stand. It is likely to include a specific "Emphasis of Matter" paragraph concerning the Loan. As the ultimate responsibility for the audit rests with the OAG, Grant Thornton will raise this matter to their attention. They have an obligation to do so in accordance with the OAG's stated "no surprises" policy.
8. Further to this trail of correspondence, there have been numerous conversations between myself as Chair, Councillors, the Mayor's office, Council officers, Government officials, ASB Bank and others, clear in the view the intention of the parties is to for Council to transfer the Loan onto its books.
9. To summarise the above, the Councillors' clear intention to acquire the Loan was demonstrated in May 2018 through the resolution. In preparation for that, they requested the cost of acquisition is budgeted into the 2018/19 financial year. We understand the Loan was fully provisioned in Council's balance sheet. The Loan and Guarantee documentation provides for assignment of the debt in this manner. This is clearly the cleanest resolution to the uncertainty over the Loan.
10. Deferring discussions until the New Year is of added concern to the Trustees as it risks continuation into the 2019 election cycle, which may prevent a conclusion being met. The prospect of further discussion with a subsequent new Council creates further uncertainty.
11. Whilst not ideal in the Trustees' eyes, the deferral of consultation over future funding needs into the New Year is not as problematic as the Loan itself. It makes sense for the two matters to be dealt with separately in this way.
12. It is worth noting that there is an historical context to the establishment of the Loan and Guarantee. In that context, the Council taking an assignment of the Loan will effectively return it to where it rightly belongs, rather than continue the current tri-partite arrangement which is not ideal for any of the parties.

We trust you can support this proposal for Council to seek an Assignment of the Loan, on expiry date, on sound commercial terms and well secured, on the basis that it provides clarity for all parties. Further discussions as to future funding needs can proceed in the New Year, as you proposed. These matters could be immediately documented in a Memorandum of Understanding (MOU) between the Parties, which would form the basis of a clear and concise disclosure within the Trust's annual report, concluding the uncertainty over the Loan's future. We enclose a suggested wording of a MOU to that effect, which could be placed before Councillors, together with this letter.

We look forward to your urgent attention to these proposals.

Kind regards,



Doug McKay
Chairman, The Eden Park Trust