

NORTHERN GATEWAY TOLL ROAD

Operating report for the period ending 30 June 2009



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Note from the Chairman



State highways are an essential part of New Zealand's strategic transport network and they play a vital role in linking communities and enabling the movement of goods and services within the country and to export points.

Given the scale and scope of road investment, it is necessary to investigate and develop new methods for funding infrastructure development. The Land Transport Management Act (2003) opened the way for a more integrated and sustainable approach to transport planning.

As a result the NZ Transport Agency (NZTA) has invested in electronic toll collection as an option to supplement more traditional funding. The opening of the Northern Gateway Toll Road on 24 January 2009 represents a significant step forward. We have now demonstrated the ability to borrow funding against future revenue to be generated by tolling. This will enable us to bring forward the construction of other strategically important roads and unlock their benefits earlier than expected.

The opening of the Northern Gateway Toll Road has not been without its challenges. Our first challenge was to get motorists used to paying a toll to use part of the state highway network. It is pleasing to see that usage of the road has exceeded expectations. I believe this positively reflects the fact that we've developed a piece of infrastructure with clear benefits that motorists are willing to pay to use.

As with all businesses, we need to balance our performance and customer services with our costs. We have undertaken a review of our operations to improve our services and target cost savings. One way we are looking to reduce our administration costs is by encouraging more customers to pay on-line. We're confident that an imminent upgrade to our tolling website will allow more customers to take advantage of the convenience of on-line payment.

The first several months of operations on the Northern Gateway Toll Road have exceeded our expectations and demonstrated that the decision to implement a free-flow electronic collection system was the correct one. This important outcome enables us to look at bringing forward the construction of other strategically important routes such as Tauranga's Eastern Link through tolling.

- Brian Roche, Chairman, NZ Transport Agency



Executive summary

The opening of the Northern Gateway Toll Road on 24 January 2009 was the culmination of over five years' planning and construction, and marked the commencement of a 35-year tolling business. This report provides performance results for the toll road through to 30 June 2009, representing just over five months of operations.

The Northern Gateway Toll Road provides an important new strategic link for the region. Without tolling, the road might still be on the drawing board. Given prioritisation criteria at the time, it was not considered a national priority for public funding. To enable the construction of the road to be brought forward, it was agreed to use the tolling provisions within the Land Transport Management Act (2003) for the first time. These provisions allowed the NZTA to borrow \$159 million of the road's construction costs against future revenue to be generated through toll collection. This meant we could secure the early delivery of a road that now enables safer, more reliable journeys between Auckland and Northland.

Our initial goal has been to get motorists and businesses to use the toll road. To help achieve this, we've promoted the road's benefits and introduced measures to help customers get used to electronic tolling. This has included: placing ambassadors at the self-service kiosks to help customers with payments and to inform them of other payment options; initially waiving the administration charge for payments received after the three-day grace period; and a stepped introduction of infringement fines and debt recovery processes for unpaid tolls.

Results from the first five months of operations on the Northern Gateway Toll Road have exceeded our expectations and demonstrated that customers are willing to pay to use the new road:

- Over 2.7 million vehicles journeys have benefited from the road's early construction, including 700,000 that have used the now less congested Hibiscus Coast route.
- Use of the toll road by volume has exceeded forecasts. This is especially pleasing given that early use of new toll roads internationally has traditionally been lower than forecast, in some cases by as much as 30%.
- The proportion of network traffic choosing to use the toll road rather than the free alternate route has also exceeded forecasts.
- Three times as many pre-paid accounts as anticipated have been opened. Almost half of all trips on the toll road are now taken by pre-paid account holders, twice the proportion expected.



- The number of web-based toll payments is exceeding initial predictions.
- The toll system is achieving over 99% automatic number plate recognition of at least one plate per vehicle.
- All debt repayment obligations are being met.

Having achieved our initial goals with respect to road usage, we are now concentrating on refining and improving the toll collection system. In operating the toll system we need to balance performance, customer services and costs. Currently collection costs are high, partly due to short-term activities undertaken to help establish the business (such as the use of on-site ambassadors at the start of the road's operation). We will continue to review operational costs with a view to lowering them.

We have dealt with a number of customer service issues, primarily regarding the operation and performance of our self-service kiosks. Electronic toll collection is a new concept for motorists in New Zealand. While we knew it would take time to understand how customers would prefer to pay their tolls, we envisaged that a high percentage would pay via our contact centre. Instead customers have generally elected to pay either by account or at the kiosks. While the high account and web uptake has been a success, the higher than expected demand for the kiosks has resulted in a number of performance issues that we have been working to resolve. Moving forward we will review how the kiosks fit within the overall long-term strategy of electronic free-flow toll collection.

Despite electronic toll collection being new to most motorists there has been a high level of compliance. We have achieved a compliance rate of 94%, even before the introduction of debt recovery processes for unpaid tolls. In the interest of fairness to all paying customers we have now implemented these debt collection processes and we expect the level of compliance to increase further as a result.

While we have faced a number of challenges, the results from the first five months of the toll road's operation represent a solid foundation from which to build the business and we are well positioned to achieve our targets and meet our debt obligations over the 35-year period. The findings of this report demonstrate that electronic toll collection can play an important role in successfully bringing about the early construction and the successful operation of strategically important roads in New Zealand.



Looking forward

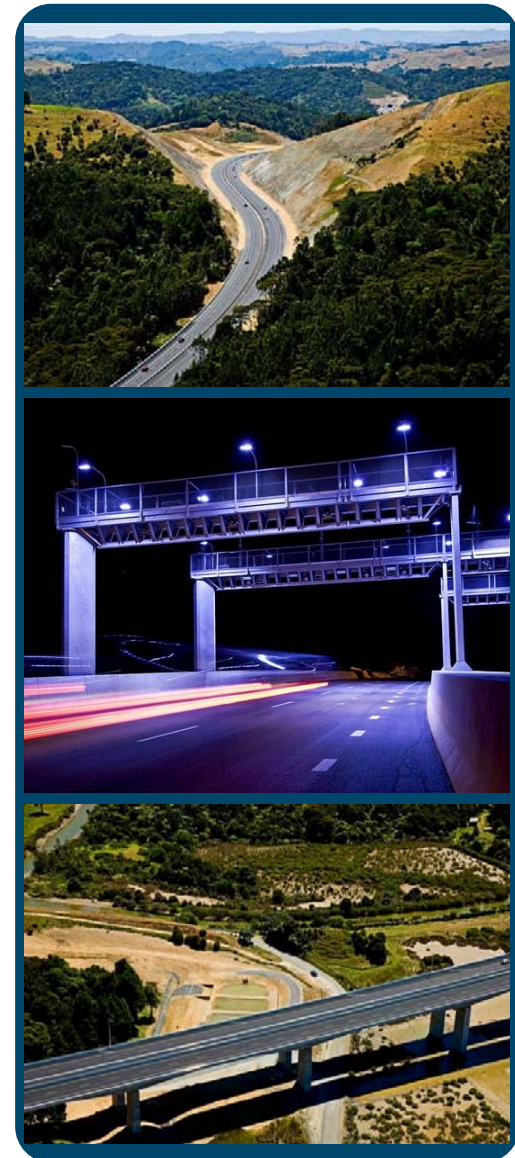
While electronic free-flow tolling has been a new experience for New Zealand motorists, it has also been a new area of business for the NZTA. There have been many challenges to overcome, including some early problems with toll payments. We have been working hard to address these issues and we are confident that the necessary improvements have been made.

We believe we have a world-class tolling infrastructure in place for the Northern Gateway Toll Road, we are looking for further improvements and we will continue to seek new ideas and listen to suggestions from our customers.

Our first priority is to upgrade the self-service kiosks and improve the customer interface. These improvements will aim to make the kiosks easier and faster to use. It is hoped this will help to reduce queues at the kiosks, especially during summer months when traffic volumes are highest. We will also continue to encourage customers to take advantage of our online and free phone payment facilities.

We'll also be improving our website to make on-line payments easier for our customers. The original design of the website was aimed at promoting use of the toll road as well as carrying out transactions. With usage of the road ahead of forecasts we can now move to a dedicated transaction site that is more focused on the quick and easy payment of tolls.

We will also be looking at ways of reducing our costs going forward. Given that the contact centre is our most expensive customer service channel we will give priority to reducing costs in this area. This initiative will be managed carefully and hours reduced progressively in order to ensure customers maintain the ability to pay tolls on time.



Tolling – results to 30 June 2009

The Northern Gateway Toll Road was officially opened by the Minister of Transport on Saturday 24 January 2009, with the announcement that the first two days of operation, to coincide with Auckland Anniversary Weekend, would be toll-free. This resulted in over 50,000 vehicles travelling the road to experience first-hand this much anticipated engineering feat.

Since tolls were imposed from midnight on Monday 26 January, in just over five full months we processed over 1.9 million toll transactions, answered 203,000 customer enquiries and established over 33,000 pre-paid accounts. All of this was achieved while introducing a brand new concept to the motoring public of New Zealand – electronic free-flow tolling.

Toll tariffs

The toll tariffs were set at \$2.00 for light vehicles (under 3.5 tonnes), \$4.00 for heavy vehicles (over 3.5 tonnes) and \$0.00 for motorcycles. There is no additional cost for towing a trailer or caravan. The zero toll for motorcycles is subject to review, which we are aiming to complete by the end of 2009.

Toll revenue

The toll tariff consists of three parts: revenue, transaction charge, and GST. Toll revenue is the portion of the tariff used to repay the debt, while the transaction charge is used to fund the operation costs (of running tolling). The \$2.00 toll is made up of \$1.13 in revenue, \$0.65 transaction charge, and \$0.22 GST. This means we can only claim up to \$0.65 from each toll to cover our operational costs. However, we expected costs associated with establishing the tolling business would be higher than this in the first few years of operations and funding was set aside for these activities.

Over \$2.3 million from toll revenue has been paid to the Ministry of Transport, for the period ending 30 June 2009, for debt repayment. This means the NZTA has met all of our debt obligations during this period.

The appendices to this report provide more detail on the financials for the Northern Gateway Toll Road for the period to 30 June 2009. These figures are preliminary and subject to a final audit, which is scheduled for later this year. The Statement of Toll Revenue Collection reports on the revenue portion of the tariff only, while the transaction charge is reported in the Statement of Profit and Loss.



Traffic volumes

Overall usage of the Northern Gateway Toll Road has been very encouraging, with both traffic volumes and the percentage of network traffic using the road exceeding expectations. This shows that we have built a product that motorists are willing to pay to use.

Actual monthly seasonal traffic volumes have been very close to forecasts, with a steady decline each month throughout winter. Traffic volumes are expected to increase again during summer.

Overall traffic volumes are nearly 8% ahead of forecast. This is primarily driven by the high volume of heavy vehicles using the road. This level of usage reflects feedback received from commercial customers that the toll road offers savings in both time and vehicle wear and tear. The flow-on effect is that there is less heavy vehicle traffic passing through Orewa, one of the original aims of the toll road. Usage volumes for light vehicles, those under 3.5 tonnes, is also higher than forecast.

As at 30 June 2009, the proportion of traffic choosing to use the toll road over the free alternative route was around 73%. It is pleasing that this is above the target of 70%, but generally still in line with the balanced network approach we aim to deliver.

These results are particularly pleasing given that early use of new toll roads internationally has traditionally been lower than forecast, in some cases by as much as 30%.

The following table outlines actual traffic volumes and forecasts by vehicle type.

Vehicle classification	Vehicle volumes (000)		
	Forecast	Actual	Variance
Light vehicles (under 3.5 tonnes)	1,691	1,769	5%
Heavy vehicles (over 3.5 tonnes)	61	151	148%
Motorcycles	24	25	4%
Exempt vehicles*	6	8	3%
Unidentifiable vehicles**	36	7	80%
Total	1,818	1,960	7.8%

* Police, fire and ambulance vehicles are exempt from paying tolls, however the number of trips incurred by these vehicles is reported in traffic volumes.

** The Northern Gateway Toll Road is one of the first toll roads in the world to rely solely on the automatic detection of number plates to identify vehicles. We therefore expected some initial problems, but these results demonstrate the accuracy of the technology we are using, with a successful number plate recognition rate of more than 99%.

A trucking company based at Leigh near Warkworth has its fleet of 16 vehicles contracted to a local fish processing plant with worldwide markets and an international reputation for delivering fresh produce.

The toll road chops a critical half hour off the company's journey to Auckland International Airport, providing travel reliability, reduced vehicle wear and tear, and allows more time to load more fish for export.

Customer behaviour

The NZTA developed two product channels for customers using the toll road – account and casual. This allows customers to choose between opening an automated account or arranging payment each time they use the toll road.

Account holders – 45% of total traffic

Over 33,000 customers have opened pre-paid accounts for the toll road – more than three times our original year one forecast.

Early feedback indicated that the initial payment level of \$40 required to open a pre-paid account was too high. We responded by lowering the minimum payment to \$20. The result was a surge in the number of accounts opened, as many potential casual customers elected to automate their toll payments. While there is still a steady increase in the number of accounts being opened, the number of trips being undertaken by account holders is now relatively static, meaning it is likely we have captured a majority of regular commuters. Overall account holders were responsible for 45% of all trips taken on the toll road to 30 June.

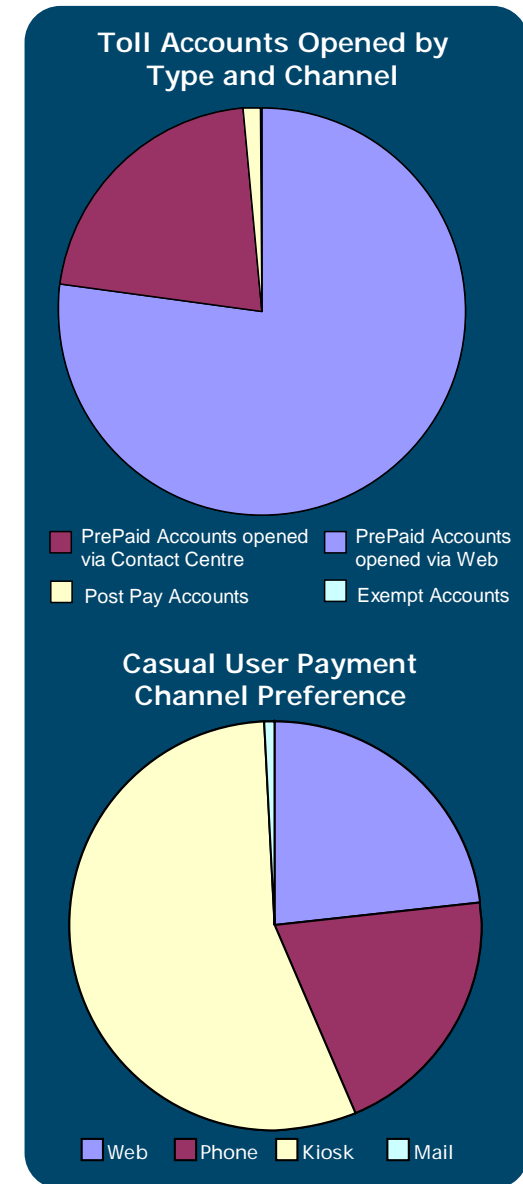
Casual customers – 55% of total traffic

Casual customers have the option of paying on-line, through our contact centre free phone, or at one of our self service kiosks located at either end the toll road.

As with many new systems there were some teething problems. In particular, casual payment customers experienced problems with the initial performance of our self service kiosks.

More casual customers have elected to use the self service kiosks than predicted. A recent survey of kiosk customers indicates that most believe that online is the quickest way to pay, and that they have the ability to access this method of payment. However many have elected to use the kiosks as a default payment method and we must do more to make online payment the method of choice.

Since the road opened there has been a steady decline in the number of payments made via the self service kiosks. The number of daily payments peaked at 2,900 over the Easter period in April, with a low of 814 in early August. While the use of the kiosks is diminishing, the result is reflective of the predicted seasonalisation of traffic volumes. The numbers of trips made daily by account holders is remaining static. This indicates that the decline in traffic volumes is largely due to fewer casual customers using the road during the winter months. Over 50% of casual customers are still opting to make payment via the self service kiosks. Based on these patterns it is possible that the



number of customers using the kiosks will return to previous levels with the onset of summer.

We believe we have addressed the majority of the initial technical problems with the kiosks and that they are now performing more reliably. We will nevertheless always be susceptible to the demands of high usage which follows seasonal traffic volumes. While we are committed to addressing the issues that kiosk users have experienced, we will continue to promote the benefits of other payment options to kiosk users, including the time savings and convenience offered by our online or contact centre channels.

During holiday weekends and other times of particularly high traffic volumes we have temporarily extended our contact centre hours, increased the level of on-road signage advising of the alternative free route, provided on-site ambassadors and added a fifth payment kiosk. Moving forward we need to determine the fit of our self service kiosks within electronic tolling, and more importantly the best level of customer service that can be achieved while continuing to meet our debt obligations.

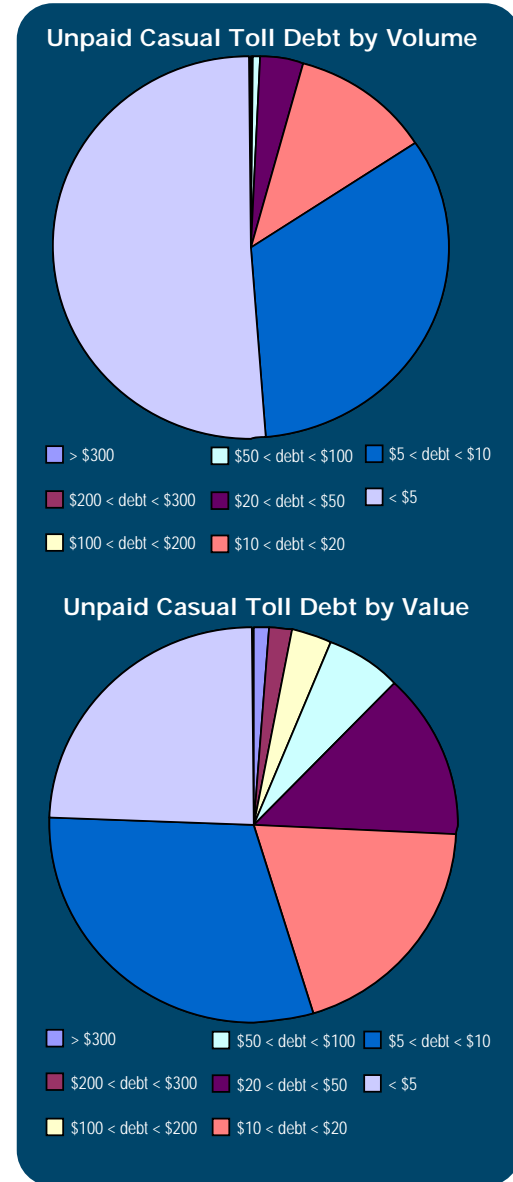
Compliance

Customers can pay tolls in advance or up to three days after using the road. If no payment is received within three days, the trip is categorised as non compliant, and the registered vehicle owner is sent a Toll Payment Notice. The sending of a notice also incurs additional administration costs, and a charge of \$2.20 is added to each notice to cover this.

Since the road’s opening a total of 128,257 Toll Payment Notices have been issued. The table below provides a summary of their status.

	Volume	%	Amount	%
Issued	128,257		\$584,648	
Paid	74,815	58%	\$341,130	58%
Unpaid	44,015	34%	\$207,442	35%
Written off	8,320	6%	\$31,124	5%
Reissued	1,107	1%	4,952	1%

A significant number of rental vehicles that currently use the road are not paying tolls and NZTA is incurring costs as we attempt to collect these tolls. The NZTA is actively seeking a solution to this situation, which may include requesting legislative changes to make collection of these unpaid tolls easier. In the meantime, we have written off toll payment notices where drivers reside overseas, as the cost of collecting these tolls would be prohibitive. Where drivers reside within New Zealand, toll payment notices have been reissued and further attempts are being made to collect the outstanding



tolls.

Despite these issues, we have achieved an overall compliance level for toll payments of 94%, even before the introduction of debt recovery processes for unpaid tolls. In the interest of fairness to all paying customers, we have now implemented these debt collection processes and we expect the level of compliance to increase further as a result. We will also be issuing infringement fees of \$40 on top of outstanding tolls which remain unpaid.

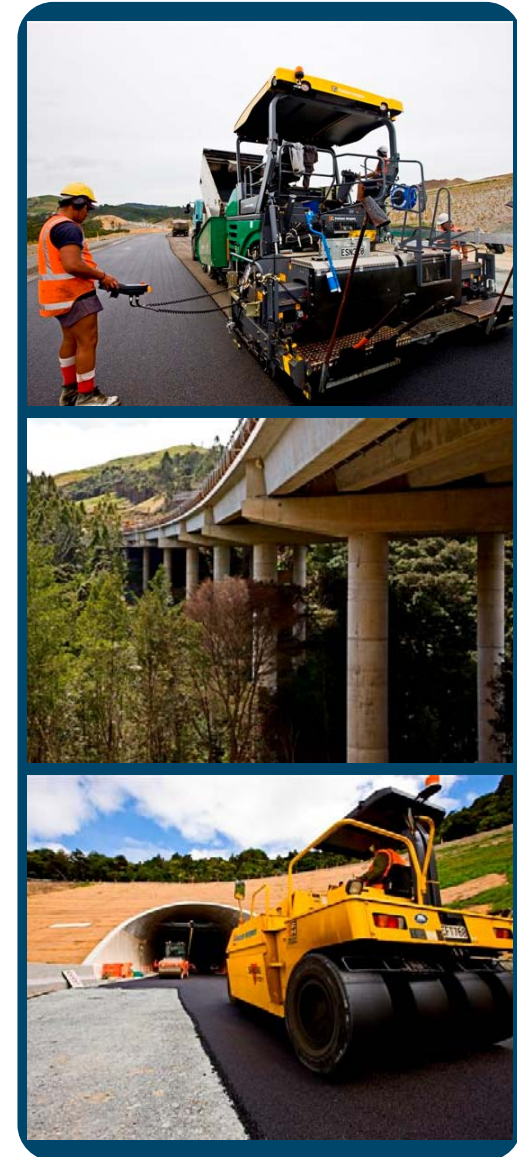
Appendix 4 provides details on levels of outstanding tolls. The table below provides a breakdown of the number of customers with unpaid tolls and the value of the tolls owed. The average outstanding toll payment as at 30 June was \$7.48.

Amount owing	Number of customers	Value	% of total value
> \$300	7	\$2,718	1.3%
Between \$200 - \$300	14	\$3,336	1.6%
Between \$100 - \$200	55	\$7,260	3.5%
Between \$50 - \$100	177	\$12,170	5.9%
Between \$20 - \$50	985	\$28,219	13.6%
Between \$10 - \$20	3,134	\$40,458	19.5%
Between \$5 - \$10	9,131	\$62,836	30.3%
Less than \$5	14,246	\$50,441	24.3%
Total	27,749	\$207,442	

Transaction charge

The toll transaction charge is the portion of the toll tariff that is designed to cover the operational expenditure for managing the toll system and the provision of customer services. The previous government approved a transaction charge of \$0.65 in November 2007.

The NZTA nevertheless expected high-up front costs associated with establishing the tolling business over the initial years of operation and funding was set aside for these activities to cover initial costs exceeding the approved \$0.65. Costs associated with establishing the tolling business have included high usage of our contact centre by customers registering and setting up pre-paid accounts. We have opened almost three times as many pre-paid accounts as anticipated. Once these accounts have been established, they present minimal ongoing administrative costs.



We have also incurred several non-recurring costs as a result of introducing the concept of electronic free-flow tolling to New Zealanders. This included the use of ambassadors to help those choosing to pay at the kiosks, the use of security guards at the northern kiosks while CCTV was installed and higher than expected maintenance costs due to the high demand placed on the kiosks. These non-recurring costs have equated to \$446,000.

To help with establishing the tolling business, the NZTA Board has decided not to charge the Northern Gateway Toll Road the overhead costs associated with the coordination and management activities seated within our National Office. These costs will be charged to the toll road from year five onwards.

Taking the initial customer establishment costs into consideration, but excluding the non-recurring costs, the average actual transaction charge for the period to the end of June 2009 was \$1.06.

Our challenge is to reduce the transaction charge to our goal of \$0.65 by the end of the toll road's fifth year of operation. We have undertaken a review focused on how to reduce transaction costs to the required levels. We will continually monitor these improvements to ensure that they bring about anticipated savings, while not adversely affecting the high level of services expected by our customers.

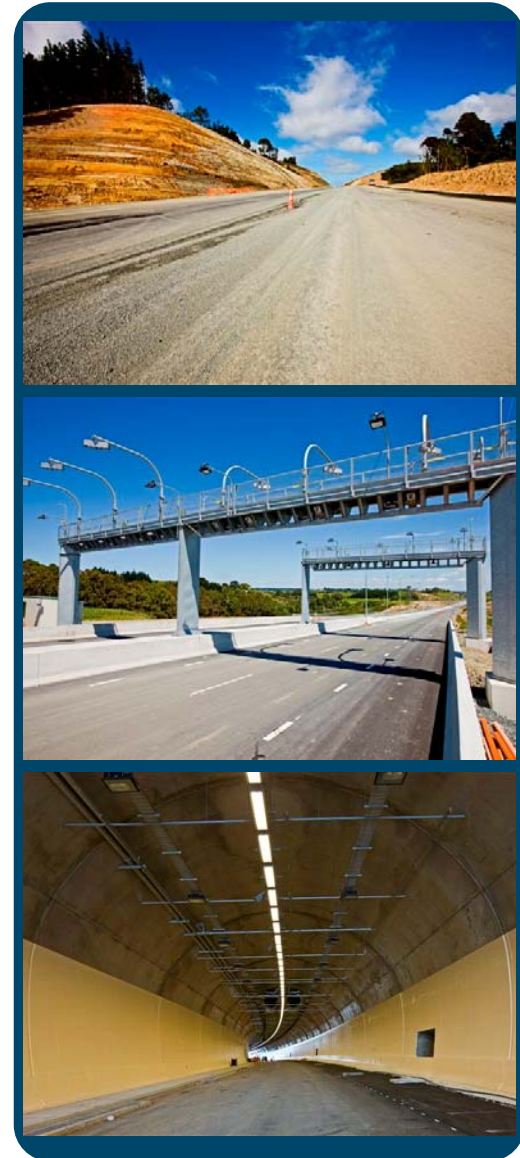
Contact channels

Providing a telephone payment option for casual users has the greatest impact on operational costs, and therefore on the transaction charge. As anticipated, web payments are the most cost effective payment solution. This is currently followed by the self-service kiosks, which in some respect is driven by the high level of demand we've experienced for the kiosks to date.

The following table summarises the cost per payment by the three different channels.

Payment method	Cost per payment
Web	\$0.14
Kiosk	\$0.35
Phone	\$2.70

Our challenge is to encourage more customers to open pre-paid accounts or to make payments via the web. Moving customers to these channels will maximise the overall benefits offered to all customers, while enabling us to deliver a high level of service within our funding constraints. As outlined above, opportunities are currently being explored to determine how best we can achieve this.



Summary

In selecting, designing and operating the toll system we are continually challenged with the need to balance performance, customer service and cost. While we have faced a number of challenges over the first five months of the toll road's operation, the results to 30 June 2009 represent a solid foundation from which to build the business and we are well positioned to achieve our targets and meet our debt obligations over the 35-year period.

The experience of the first five months' of operations on the Northern Gateway Toll Road show that electronic toll collection can play an important role in successfully bringing about the early construction and the successful operation of strategically important roads in New Zealand.



While it is still early days, the results to 30 June 2009 represent a solid foundation from which to build the business. We are well positioned to achieve our targets and meet our debt obligations over the 35-year period.



APPENDICES

Appendix 1: Statement of toll revenue collection

Appendix 2: Balance sheet as at 30 June 2009

Appendix 3: Statement of cash flows

Appendix 4: Level of outstanding tolls

Appendix 5: Statement of operating profit and loss

Appendix 6: Uncollected toll transactions and consequential damages

Appendix 7: Operational cost per transaction



Appendix 1: Statement of toll revenue collection

Statement of toll revenue to 30 June 2009 (subject to final audit)

	Notes	MONTH				YEAR TO DATE				ANNUAL Budget \$ (000)
		Budget \$ (000)	Actual \$ (000)	Variance \$ (000) %		Budget \$ (000)	Actual \$ (000)	Variance \$ (000) %		
Paid Toll Revenue										
Light		310	331	21	7%	1,844	1,887	43	2%	1,844
Heavy		28	81	53	189%	167	423	256	153%	168
Total Paid Toll Revenue	1	339	412	73	22%	2,012	2,310	298	15%	2,012
Interest on Toll Revenue	2	0	0	0	0%	2	2	0	0%	2
Total Funds Available to be paid to MoT for Debt Repayment							2,312			
Funds Paid to MoT to date							1,444			
Funds held by NZTA subject to payover to MoT	3						868			
Unpaid Toll Revenue										
Light		22	7	(15)	(68%)	135	112	(23)	(17%)	135
Heavy		2	3	1	50%	12	16	4	31%	12
Total Unpaid Toll Revenue	4	24	10	(14)	(58%)	147	128	(19)	(13%)	147
Total Outstanding Casual Debtor Balance consists of:	5						260			
Toll Revenue to be collected for MoT							128			
Operating Charge to be collected							68			
Administration Charges to be collected							34			
GST to be collected							30			
							<u>260</u>			

Notes to the statement of toll revenue

1. **Paid toll revenue** – Paid toll revenue is the portion of all paid tolls that is designated for the repayment of the debt raised to bring forward the construction of the road. Total paid toll revenue is 15% (\$298K) ahead of year to date budget. Higher than expected pre-paid account registrations and higher traffic volumes are contributing to greater than expected revenue collection.
2. **Interest on toll revenue** – Interest is earned daily on balances held for payover to the MoT and credited to the toll revenue account on a six-monthly basis. This interest is included in the debt repayment to the MoT memorandum account.
3. **Funds available to be paid to the MoT for debt repayment** – The first quarterly payment was made for the three months ending 30 April and, in agreement with the MoT, thereafter quarterly repayments will align with the MoT's standard financial reporting year. Total toll revenue collected as at 30 June 2009 is \$2.312m. Of this \$1.444m was paid to MoT for the April quarter. The balance (\$0.868m) was paid to MoT in early July 2009, after the reporting period. The next payment will be made in September 2009.
4. **Unpaid toll revenue** – Unpaid toll revenue is the portion of all unpaid tolls that is designated to be used to repay the debt used to construct the road. As at 30 June 2009 this revenue is 13% (\$19k) below budget, and given that traffic volumes are ahead of forecast, this is a very positive result.
5. **Total outstanding casual debtor balance** – This balance consists of all toll trips and any associated administration fees that are uncollected as at 30 June 2009.

Appendix 2: Balance sheet as at 30 June 2009

Balance sheet as at 30 June 2009 (subject to final audit)

	Notes	\$	\$	\$
CURRENT ASSETS				
Cash and Cash Equivalents	1			
Toll Trust Account		902		
Toll Operating Account		886		
Toll Payments Account		333		
Kiosk/Payover Deposits in Transit		40		
Balances Held in Kiosks		13		
			2,174	
Toll Debtors	2			
Toll Casual Debtors		260		
less Toll Revenue (MoT) Portion		(128)		
Post Pay Account Debtors		65		
			196	
TOTAL CURRENT ASSETS				2,370
NON CURRENT ASSETS	3			
Northern Gateway Toll Road Assets		5,426		
less Accumulated Depreciation		(264)	5,162	
TOTAL NON CURRENT ASSETS				5,162
TOTAL ASSETS				7,532

	Notes	\$	\$	\$
CURRENT LIABILITIES				
Prepayments	4			
Unmatched Payments		1		
Trip Pass Prepayments		253		
Pre Pay Account Balances		801		
			1,055	
Other Liabilities	5			
GST		157		
Accounts Payable/Accrued Expenses		343		
Payable to MoT		2,310		
Paid to MoT		(1,444)		
			1,366	
TOTAL CURRENT LIABILITIES				2,421
EQUITY				
Opening Equity		5,426		
Unused Operating/Admin Charges		190		
Retained Earnings/Income Summary		(505)		
Closing Equity	6		5,111	5,111
TOTAL LIABILITIES AND EQUITY				7,532

Notes to the balance sheet

1. **Cash and cash equivalents** – Three bank accounts are maintained by the tolling operation to facilitate cash management and payovers. The toll trust account (\$902k) holds the funds pre-paid by account holders. The toll operating account (\$886k) holds the funds to be paid over to the MoT, and also receives all casual toll payments. The toll payments account (\$333k) receives the operating fee, and operational expenditure is paid from this account. Kiosk/payover deposits in Transit are payments that have been recognised through completed financial transactions, but due to the timing of deposits for cash received at the kiosks and credit card payovers, the cash has not yet been deposited. The balances held in kiosks is the total cash held in the kiosks at midnight 30 June 2009.
2. **Debtors** – Toll debtor balances consist of two groups. The first is toll casual debtors, that is the total of all outstanding toll payment notices and unpaid toll trips that are yet to receive a toll payment notice, less the toll revenue portion that is due to be collected on behalf of the MoT. This amount is excluded as it is not part of the operation of tolling. The second is post-pay account debtors, which are commercial road users who pay for their Toll Road use on an invoice basis.
3. **Prepayments** – The toll prepayments are unidentified/unmatched payments into Tolling bank accounts, prepaid casual purchases and account prepayments.
4. **Non-current assets** – The Northern Gateway Toll Road (NGTR) uses a number of assets that were funded from the National Land Transport Programme (NLTP). These assets were built with the intention of using a number of the assets for five tolling road operations. At this time there is only one tolling road in operation and as such the treatment of the depreciation of the assets has been raised. It is proposed that the NGTR be charged for the assets that are utilised specifically for the NGTR and that these assets are to be depreciated over their useful lives.

For the rest of the assets that have been acquired or built for tolling collections/management and are for more than one tolling operation, it is proposed that these assets are to be depreciated and charged from their first use. However, the NGTR should only be charged for the element (that is their 20% portion) of the depreciation charge. The remainder of the depreciation for the four yet to be built roads, should be written off against the state highway valuation as depreciation. The justification being that the asset is being utilised and will need replacing but the NGTR is not using the system to its full capacity.

One impact of the above is that when the asset comes to be replaced, there will only be part of the depreciation accumulated for the replacement. The plan is that the NLTP will contribute to the further replacement costs.

5. **Other liabilities** – The net of payable to mot and paid to mot represents the funds held by the toll operator to be paid over to the MoT for repayment of the debt each financial quarter for construction of the Northern Gateway Toll Road.
6. **Equity** – This is represented by the net surplus/ (deficit) amount from the Statement of toll operations profit and loss, and the unused operating/administration charges. The amount of unused operating/administration charges represented is a result of month-end timing, as these charges are transferred to an NZTA operational account after the month has closed.

Appendix 3: Statement of cash flows

Cash flows for period ending 30 June 2009 (subject to final audit)

	Notes	Year to Date	
		Actual \$000	Actual \$000
Cash Flows from Operating Activities			
Receipts from Customers			
Pre Paid Account Holders		2,419	
Post Pay Account Holders		266	
Casual User Payments		<u>2,272</u>	
Total Receipts from Customers			4,957
Payments to Suppliers			(1,814)
Interest Received			2
Net Cash Flows from Operating Activities			<u>3,145</u>
Cash Flows from Investing Activities			
Net Cash Flows from Investing Activities			<u>0</u>
Cash Flows from Financing Activities			
Payover to MoT for Repayment of Debt			(1,444)
Residual Construction Project Funds made available	1		419
Net Cash Flows from Financing Activities			<u>(1,025)</u>
Net Increase/(Decrease) in Cash Held			2,120
Opening Cash Balances			0
Closing Total Cash Balances			<u>2,120</u>

Notes to the statement of cash flows

- Residual construction project funds made available** – NZTA Board approved the Toll System Project’s construction funding being used to fund the initial operating costs over and above the steady state projections for the Northern Gateway Toll Road’s tolling scheme. To 30 June 2009 this has totalled \$419k.

Appendix 4: Level of outstanding tolls

Level of outstanding tolls at 30 June 2009 (subject to final audit)
(GST Inclusive)

	Trips (000)	Revenue \$(000)
Total Chargeable Toll Trips	1,920	4,147
Total Administration Charges		127
Total Toll Revenue		<u>4,274</u>
Paid Toll Trips	1,806	3,926
Paid Administration Charges		89
Paid Toll Revenue		<u>4,015</u>
Unpaid Toll Trips	114	221
Unpaid Administration Charges		38
Unpaid Toll Revenue		<u>259</u>
Toll Trip Compliance	94.1%	
Toll Revenue Compliance		93.9%

Total outstanding toll trips make up 5.9% (114k) of total trips, and the outstanding revenue, including unpaid administration charges associated to sending toll payment notices, is 6.1% (\$259k) of total toll revenue. Given that neither the infringement nor civil debt process had been deployed within the timeframes to which this report applies, this demonstrates a high level of compliance. .

Appendix 5: Statement of operating profit and loss

Statement of operating profit and loss for period ending 30 June 2009 (subject to final audit)

	Notes	MONTH				YEAR TO DATE				ANNUAL Budget \$
		Budget \$	Actual \$	Variance \$	%	Budget \$	Actual \$	Variance \$	%	
OPERATING REVENUE	1									
Operating Charges		185	224	39	21%	1,095	1,248	153	14%	1,095
Administration Charges			42				113	113		
Interest										
Recoveries from Project		304	50	(254)	(84%)	1,624	722	(902)	(56%)	1,624
		489	316	(215)	(44%)	2,719	2,083	(636)	(23%)	2,719
EXPENDITURE										
Transaction Costs	2									
Datamail		5	4	1	20%	31	17	14	45%	31
Postage		19	27	(9)	(48%)	113	61	52	46%	113
External Stationery		5	2	3	62%	27	17	10	36%	27
Credit Card Fees		19	17	1	8%	112	61	51	45%	112
POLi Fees		1	4	(3)	(600%)	3	7	(3)	(109%)	3
Bank Fees		2	1	1	75%	12	1	12	96%	12
Kiosk Fees		5	39	(35)	(756%)	25	318	(293)	(1192%)	25
		54	94	(40)	(74%)	323	481	(158)	(49%)	323
Support and Maintenance	3									
Data Communication		7	1	6	83%	38	22	15	40%	38
System Maintenance		45	221	(175)	(386%)	243	320	(77)	(31%)	243
Road-side Equipment		9	60	(51)	(602%)	46	151	(105)	(230%)	46
Phones		45	(7)	52	115%	273	120	153	56%	273
		106	275	(169)	(159%)	600	613	(14)	(2%)	600
Corporate Services Costs	4									
Personnel		119	153	(35)	(29%)	672	804	(133)	(20%)	672
Marketing		18	0	18	100%	99	152	(53)	(54%)	99
General		2	2	(1)	(29%)	10	4	6	59%	10
Indirect Cost Centre Costs		185	23	162	88%	943	119	825	87%	943
RO Indirect CC Costs		121	22	99	82%	543	150	393	72%	543
Depreciation		-	53	(53)	-	-	264	(264)	-	-
		445	253	191	43%	2,267	1,493	774	34%	2,267
TOTAL EXPENDITURE		605	623	(18)	(3%)	3,190	2,588	602	19%	3,190
NET SURPLUS / (DEFICIT)	5	(116)	(306)	(190)	(165%)	(471)	(505)	(34)	(7%)	(471)

Notes to the statement of operating profit and loss

- 1. Operating revenue** – Operating revenue is sourced from the toll operating charge, Administration charges from additional fees charged to casual road users and from residual Design and Construct Project funds. Operating revenue from charges is designed to cover all operating costs, but there is a requirement in early operations of the Toll Road to meet additional costs in excess of these. These additional costs are funded from a residual from the Design and Construct Project being completed under budget. Total surplus project funds are estimated to be \$3.3m. YTD operating revenue from charges is 14% (\$153k) ahead of budget, due to the higher road usage than forecast, and recoveries from the project residual are 56% (\$907k) below budget.
- 2. Transaction costs** – Transaction costs are generally below budget, with the exception of kiosk operating costs. There have been significant additional and unexpected costs associated with the operation of the kiosk payment machines, including staffing the kiosks with ambassadors, static security guards and higher than expected servicing, support and maintenance costs. Some of these additional costs are no longer recurring, such as the ambassadors and security, but servicing, support and maintenance costs are ongoing.
- 3. Support and maintenance** – Support and maintenance costs are 2% (14k) above budget, with roadside costs the most significant item being 230% (\$105k) over budget.
- 4. Corporate services costs** – Corporate services costs are 34% (\$774k) under budget, and there is one significant item in the budget that is not reflected in the actuals, being the National Office overheads.

To help with establishing the tolling business, the NZTA Board decided not to charge the Northern Gateway Toll Road the overhead costs associated with the coordination and management activities seated within our National Office. These costs will be charged to the toll road from year 5 onwards.

A second significant item is depreciation, which originally was not included in the budget, but is included in actuals. Please refer to the notes to the balance sheet for the commentary on non-current assets and depreciation.

Administrative costs associated with reporting and other compliance are contained within these costs.

- 5. Net surplus/(Deficit)** – The net surplus/(deficit) is a non-cash result of reporting toll operations revenue and expenditure. The deficit consists of all non-cash items in the statement, unpaid operating revenue and year to date accruals to recognise expenses incurred but not yet billed.

Appendix 6: Uncollected toll transactions and consequential damages

Uncollected toll transactions resulting from faults in the toll collection system

Two system faults occurred that resulted in uncollected toll transactions. These faults occurred during the early stages after opening of the Northern Gateway Toll Road and were quickly corrected.

The first fault generated \$4,632.00 of toll payments in excess of payments received, meaning we were unable to receive this amount from the banks although customers made valid payments to the toll system. The second event was related to where toll payment notices were created but not issued. The value of the trips affected and where the toll remained unpaid was \$18,222.00.

Consequential damages

Two events have occurred resulting in consequential damages being paid. All payments made have been made by topping-up the pre-paid accounts of affected customers.

In January some customers opted to replace their credit cards after discovering that the toll payment website had inadvertently been launched as a non-secure site. This fault was quickly corrected but NZTA reimbursed the costs of replacing the credit cards with a total of \$220.00 paid as top-ups to pre-paid accounts.

In March, a system fault caused a number of customers to incur multiple top-up transactions on their credit cards. Each affected customer was credited the amount of the multiple transactions, but also received a free top-up on their pre-paid account. These top-ups totalled \$7,264.00.

Appendix 7: Operational cost per transaction

The following calculation takes total operational expenses to 30 June 2009, and divides by the total number of chargeable toll trips during this period.

Operational Expenditure	2,587,925
less Costs covered by Administration Charges	(113,351)
	2,474,574
Total Toll Trips	1,919,886
Operational cost per transaction	\$ 1.29
Non Recurring cost per transaction	\$ 0.23
Operational cost per transaction (net of non recurring costs)	\$ 1.06

The figures presented here are subject to final audit.

The transaction charge of \$1.06 (excluding non-recurring costs) is a positive result after five months of operation, and is in line with our original expectations, with a forecast transaction charge of \$1.07 for 30 June 2009.

Due to expenses being erratically incurred through the ledgers for the first five months of tolling operations and given the bedding-in of a number of supplier contracts, the monthly trend of operational cost per transaction is distorted. We aim to report this trend on a six-monthly period as we believe this to be more appropriate.