

December 4, 2008

Research Update:

Ratings On New Plymouth Affirmed At AAA/Stable/A-1+ On Continued Quality Management

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Rationale

On Dec. 5, 2008 Standard & Poor's Ratings Services affirmed its local currency 'AAA' long-term and 'A-1+' short-term issuer credit ratings on New Zealand's New Plymouth District Council. The outlook on the ratings is stable. The ratings reflect the council's net creditor position, high liquidity levels, limited capital-expenditure requirements, limited ownership of council controlled trading enterprises that offset the Taranaki regional economy's relatively narrow structure.

The council's balance sheet remains very strong compared to its peers. New Plymouth's cash and liquid assets exceed its debt levels, and are likely to remain that way over the medium term, in spite of an expected rise in gross debt. The council's Perpetual Investment Fund (PIF) plays a key role in bolstering the council's credit quality. The fund has performed well in a difficult 2008 investment environment, and significantly enhances the council's liquidity and fiscal flexibility.

The council has limited capital-expenditure requirements. This stems from its low new and replacement infrastructure needs. New Plymouth's population expansion is respectable by New Zealand standards, and does not create the growth pressures encountered by other peer councils like Auckland City Council and Tauranga City Council. Importantly, rather than facing new infrastructure or maintenance backlogs, the council's water- and sewerage-infrastructure spending priorities focus on raising water quality standards and in building capacity in advance of future system demand.

Diversity within the Taranaki regional economy has increased with the emergence of the oil and gas, tourism, and service sectors. The regional economy nonetheless remains strongly dependant on milk and milk-products production. In spite of the relative narrowness of its economy, the Taranaki region has outperformed the national average in the past year.

New Plymouth's liquidity position is strong. At June 30, 2008, cash and security holdings of about NZ\$314.9 million and NZ\$45 million in committed bank facilities more than offset short-term debt obligations of NZ\$44.6 million.

Outlook

The stable outlook on New Plymouth reflects our expectation that the council will maintain its prudent approach to managing its finances. This includes maintaining expenditure control and adequate liquidity management in a weakening economic and overall operating environment.

The ratings may be downgraded if the council's resources were used to

support the PIF or there was a sustained run down of the PIF's capital base to bridge operating revenue shortfalls of the council. New Plymouth's credit quality would also be weakened if net debt levels deteriorate as a result of heavier PIF investment alternative assets, or if diminished independence and management capability led to weaker PIF performance.

Ratings List

Ratings Affirmed

New Plymouth District Council

Issuer Credit Rating

Foreign Currency

AA+/Stable/A-1+

Local Currency

AAA/Stable/A-1+

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