

INVESTMENTS

part 6

INVESTMENTS

OVERVIEW

Greater Wellington has a significant portfolio of investments comprising:

- Liquid financial deposits
- Administrative properties (eg, depots)
- Forestry and business units
- Equity investments in the WRC Holdings Group (including CentrePort)
- Rail rolling stock and related transport infrastructure

Greater Wellington's philosophy in managing investments is to optimise returns in the long-term while balancing risk and return considerations. It recognises that as a responsible public authority any investments that it holds should be held for the long-term benefit of the community, with any risk being appropriately managed. It also recognises that lower risk generally means lower returns.

From a risk management point of view, Greater Wellington is well aware that its investment returns to the rate line are exposed to the success or otherwise of its two main investments – the WRC Holdings Group (including CentrePort) and its liquid financial deposits. At an appropriate time in the future Greater Wellington believes that it could continue to reduce its risk exposure by reducing its investment holdings and using the proceeds to repay debt. The timing of these divestments will be in accordance with Greater Wellington's objective to optimise the overall return to ratepayers.

It is important to appreciate that Greater Wellington's investments contribute approximately 12% to the total level of regional rates. In other words, regional rates would need to be 12% higher were it not for the contribution from Greater Wellington's investments.

LIQUID FINANCIAL DEPOSITS

Greater Wellington holds \$33 million in liquid financial deposits as a result of selling its interest in CentrePort to one of its wholly owned subsidiaries, Port Investments.

Greater Wellington regularly reviews the rationale for holding these liquid financial deposits, taking into account:

- General provisions of our treasury management policy, including Greater Wellington's attitude to risk and creditworthy counterparties.
- Specific provisions of Greater Wellington's treasury management policy to hold sufficient deposits or have committed funds available as part of its self-insurance of infrastructural assets
- The rate of return from alternative uses of these funds
- The requirement to hedge the \$44 million debt within the WRC Holdings Group

TREASURY MANAGEMENT

Greater Wellington's treasury management is carried out centrally to maximise its ability to negotiate with financial institutions.

Greater Wellington then on-lends these funds to activities that require debt finance. This allows the true cost of debt funding to be reflected in the appropriate areas. The surplus is then used to offset regional rates.

ADMINISTRATIVE PROPERTIES

Our interests in the Upper Hutt and Mabey Road depots, and the Masterton office building are grouped to form an investment category, Administrative Properties. It is intended that the new Masterton office building will be constructed for around \$6 million and owned by Pringle House Ltd. Pringle House is a wholly owned Council Controlled Trading Organisation (CCTO) which currently owns the Regional Council Centre at 142 Wakefield Street, Wellington.

FORESTRY AND BUSINESS UNITS

Greater Wellington and its predecessor organisations have been involved in forestry for many years, primarily for soil conservation and water quality purposes.

Greater Wellington currently holds 6,000 hectares of plantation and soil conservation reserve forests of which approximately 4,000 hectares are in the western or metropolitan part of the region, with the remaining 2,000 hectares in the Wairarapa.

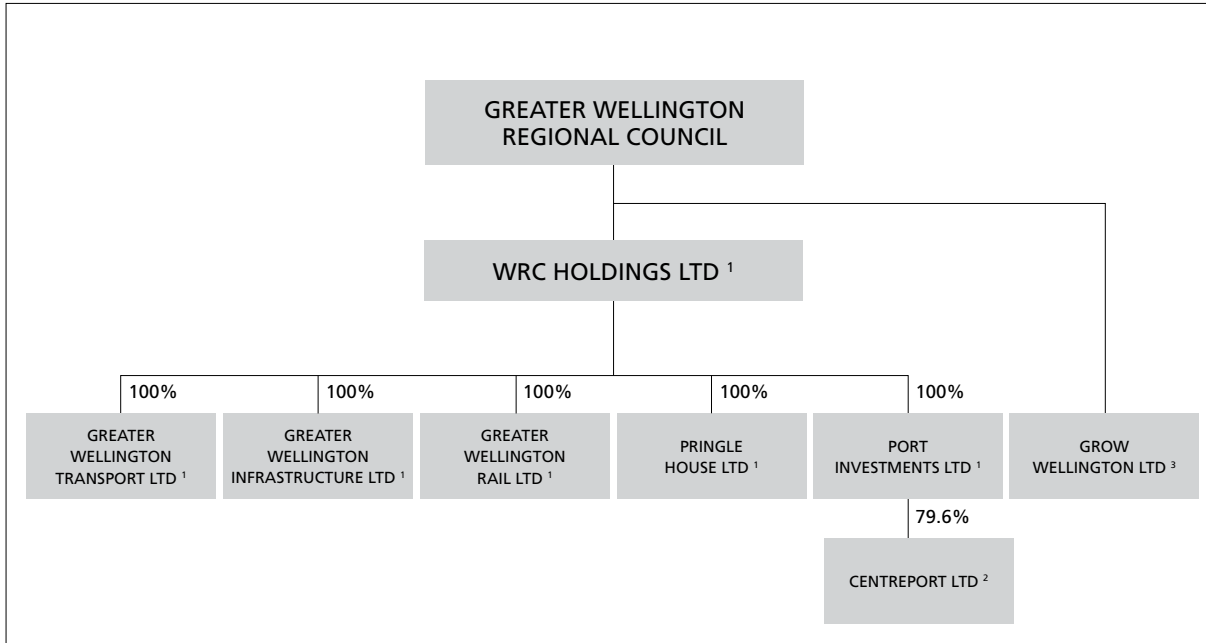
It is assumed that legislation will remain in place to receive revenues of 60 emission trading units per hectare at a value of \$10 per unit for the pre-1990 plantings. This provides revenue of \$1 million in 2009/10, \$1.3 million in 2013/14, \$180,000 in 2015/16 and \$900,000 in 2018/19.

The overall investment policy of Greater Wellington with regard to forestry is to maximise long-term returns while meeting soil conservation, water quality and recreational needs. This policy assumes that harvesting will be on a sustainable yield basis and will be maintained without any demand on regional rates. In fact, both the plantation and reserve forest business units are required to budget for an internal dividend irrespective of the projected operating result for the year. The level of internal dividend contribution to the rate line from forestry is currently \$225,000 per year and will continue to be reviewed annually.

Our other business units, Bioworks (pest control) and the Wairarapa Workshop (vehicle equipment and repairs), are also required to return to us an internal dividend in the same way as plantation forestry and reserve forests. The internal dividend rate is based on the net assets employed by each of these businesses. The level of internal dividend will continue to be reviewed annually.

WRC HOLDINGS GROUP

Greater Wellington has established the following equity investments in the WRC Holdings Group



¹ Council-Controlled Trading Organisation in accordance with the Local Government Act 2002

² Commercial Port Company pursuant to the Port Companies Act 1988 and not a Council Controlled Organisation in accordance with the Local Government Act 2002

³ Council-Controlled Organisation in accordance with the Local Government Act 2002

WRC Holdings Ltd and Port Investments Ltd are in essence investment holding companies. The main operating companies in the Group are CentrePort Ltd and Pringle House Ltd. Each year WRC Holdings Ltd provides to Greater Wellington, as 100% shareholder, a Statement of Intent for the WRC Holdings Group.

The WRC Holdings Group structure was set up for the following reasons that are still applicable:

- Appropriate separation of management and governance
- Imposing commercial discipline on the Group's activities to produce an appropriate return by ensuring appropriate debt/equity funding and requiring a commercial rate of return
- Separation of Greater Wellington's investment and commercial assets from its public good assets

The WRC Holdings Group is Greater Wellington's prime investment vehicle and the main mechanism by which it will own and manage any additional equity investments should they be acquired in the future. Periodically, Greater Wellington reviews the structure to determine if it is still an appropriate vehicle for holding its investments.

In addition, Greater Wellington has minor equity interests in Civic Assurance and Airtel Ltd. These investments are owned directly by Greater Wellington rather than via the WRC Holdings Group.

Grow Wellington acts as an economic development agency. Further discussion on this is included in the Regional Sustainability Development Group of Activities under the activity Wellington Regional Strategy.

WRC Holdings – Statement of Intent

OBJECTIVES AND ACTIVITIES OF THE GROUP

OBJECTIVES

The primary objectives of the Group shall be:-

- Support Greater Wellington’s strategic vision, operate successful, sustainable and responsible businesses.
- Manage its assets prudently.
- Where appropriate, provide a commercial return to shareholders.
- Adopt policies that prudently manage risks and protect the investment of its shareholders.

ACTIVITIES

WRC Holdings Ltd is the holding company for Pringle House Ltd (PHL), Port Investments Ltd (PIL), Greater Wellington Rail Ltd (GWRL) and, indirectly, CentrePort. It does the following:

- Owns and operates the Regional Council Centre at 142-146 Wakefield Street, Wellington. The building is owned by PHL who leases it out on commercial terms to Greater Wellington, Vector and AIG. The management of the building is undertaken by Greater Wellington’s property consultants, O’Brien Property Ltd.
- Owns Greater Wellington’s investments in rail rolling stock via GWRL. GWRL currently owns a number of carriages and units. During 2007/08 a contract was entered into with Rotem Mitsui for the supply of 96 Matangi electric units (EMUs). The units will be delivered in stages commencing 2010. The Government has indicated that it wishes for the rolling stock to be owned by KiwiRail directly. The manner and timing of this transfer/sale has not been finalised.
- Owns 76.9% of CentrePort via PIL.

The major activities of CentrePort are:

- Port infrastructure (land, wharves, buildings, equipment, utilities)
- Shipping and logistical services (pilotage, towage, berthage)
- Operational services (cargo handling, warehousing, facilities management, property management, security, emergency services)
- Integrated logistics solutions (networks, communications, partnerships)
- Property services (development, leasing management)
- Joint ventures (coldstore, container repair, cleaning, packing, unpacking, storage)
- Monitors the performance of CentrePort through the board of PIL.
- Effectively manages any other investments held by the Group in order to maximise the commercial value to the shareholders and to protect the shareholders’ investment.
- Acts as a diligent constructive and inquiring shareholder.

ENVIRONMENTAL AND SOCIAL PERFORMANCE TARGETS OF THE GROUP

ENVIRONMENT

- Operate in an environmentally and sustainable manner.
- Minimise the impact of any of the Group’s activities on the environment.
- Raise awareness of environmental issues within the Group.
- Ensure PHL operates in an energy efficient manner.

SOCIAL

- Provide a safe and healthy workplace.
- Participate in development, cultural and community activities within the regions in which the Group operates.
- Help sustain the economy of the region.

PERFORMANCE TARGETS FOR THE GROUP

FINANCIAL	2009/10	2010/11	2011/12
Net profit/(deficit) before tax	\$7.8 million	\$9.0 million	\$11.2 million
Net profit/(deficit) after tax ¹	\$3.8 million	\$5.0 million	\$6.5 million
Return on total assets ²	3.7%	4.6%	5.9%
Return on shareholders' funds ³	1.4%	2.1%	2.9%
Dividends ⁴	\$1.2 million	\$0.2 million	\$0.75 million

¹ Net profit after tax, but before deduction of minority interest.

² Earnings before interest and tax as a percentage of average total assets.

³ Net profit after tax (and after deduction of minority interest) as a percentage of average shareholder equity (excluding minority interest).

⁴ Dividends (interim and final) paid or payable to the shareholder.

DIRECTORS OF WRC HOLDINGS AND ITS SUBSIDIARIES (EXCLUDING CENTREPORT)

Anne Blackburn

Peter Blades

Ian Buchanan

John Burke

Peter Glensor

Fran Wilde (Chair)

CENTREPORT

Statement of Corporate Intent

OBJECTIVES

The *primary* objectives of the Company shall be to:

- Operate as a successful, sustainable and responsible business
- Be customer focused and provide superior service
- Be the industry leader in transport logistics solutions.

The *financial* objectives of the Company shall be to:

- Provide a commercial return to shareholders
- Adopt policies that prudently manage risk and protect the investment of shareholders.

The *environmental* objectives of the Company shall be to:

- Operate in an environmentally responsible and sustainable manner
- Raise awareness of environmental issues within the Company.
- Liaise with and communicate to stakeholders the Company's environment and sustainability performance.

The *social* objectives of the Company shall be to be socially responsible and have a positive and sustainable impact on the social systems (employees, customers, suppliers, local community and wider society) by:

- Being a learning organisation and superior employer
- Providing a safe and healthy workplace
- Participating in and encouraging development, cultural and community activities within the regions in which the Company operates
- Consulting with employees, stakeholders and community where appropriate.

PERFORMANCE TARGETS

FINANCIAL	2009/10	2010/11	2011/12
Net profit before tax	\$8.7 million	\$10.5 million	\$13.0 million
Net profit after tax	\$6.5 million	\$7.8 million	\$9.6 million
Return on total assets ¹	4.5%	5.3%	6.0%
Return on shareholders' funds ²	3.3%	3.9%	4.6%
Dividends	\$5.17 million	\$3.1-\$4.7 million	\$3.8-\$5.8 million
Dividend distribution ³	79%	40-60%	40%-60%

¹ Net profit before interest and tax as a percentage of average total assets

² Net profit after tax as a percentage of average shareholders' funds.

³ Dividend as a percentage of net profit after tax.

The target for return on shareholders' funds is to be in the top four of comparable New Zealand ports.

ENVIRONMENTAL

- Develop and maintain a formal environmental management system consistent with the standards specified in AS/NZ ISO 14001: 2004.
- Formally review the company's compliance with all environmental legislation, district and regional plans and conditions of resource consents held.
- Maintain a sustainably programme with measurable performance criteria covering as a minimum the monitoring of waste and greenhouse gas emissions.
- Undertake the monitoring of environmental discharges in accordance with implemented management plans in the areas of:
 - Port noise
 - Stormwater discharges to the Coastal Marine Area
 - Fumigants associated with the pest treatment of cargoes.

- Work collaboratively with the Greater Wellington Regional Council in the monitoring for compliance of the use of Methyl Bromide for the fumigation of log shipments and the addressing in consultation with the Crown agencies alternative fumigation options.
- Maintain an environment issues register of environmental complaints and issues for monitoring and actioning purposes. The register to be reported to CPL's Health, Safety and Environmental Committee on a regular basis (meets at least 3 times per annum).
- CentrePort Ltd will hold a minimum of three environmental consultative committee meetings in 2008/09 comprising CPL and effected stakeholders (customers, port users, local authorities Iwi and residential groups). The meetings provide a forum to identify and inform on a range of environmental port related matters.

SOCIAL

- Provide opportunities for employee growth, development, improvement and recognition.
- Maintain tertiary level of compliance with the ACC Workplace Safety Management Practices Programme and comply with the AS/NZS 4801: Occupational Health and Safety Management Systems.
- Carry out an annual review of Health and Safety Policy.
- Maintain compliance with the International Ship & Port Security (ISPS) Code which promotes security against terrorism within the port environment.
- Undertake risk assessments and implement any mitigating procedures relating to the Port and Harbour Safety Code which promotes safety and excellence in marine operations.
- Undertake an appropriate level of sponsorship.
- Meet regularly with representative community groups.

GENERAL

The company will, in consultation with shareholders, continue to develop performance targets in the environmental and social areas in order to be able to maintain triple bottom line reporting in accordance with best practice.

When developing "property held for development" the Board is to adhere to the following principles:

- Properties may be developed without the building being fully pre-let so long as tenancy risk is managed prudently
- Property developments must not compromise port operations
- Developments are to be undertaken only if they are able to be funded without additional capital from shareholders.

SHAREHOLDERS OF CENTREPORT

- Port Investments Ltd: 76.9%
- Horizons Regional Council: 23.1%

DIRECTORS OF CENTREPORT

David Benham

Richard Janes

Jim Jefferies

Malcolm Johnson

Warren Larsen (Chairperson)

Mark Petersen

FINANCIAL INFORMATION

INVESTMENTS

PROSPECTIVE INCOME STATEMENT

	2009/10 \$000s	2010/11 \$000s	2011/12 \$000s
INCOME STATEMENT			
Operating revenue	13,532	12,274	12,122
Operating expenditure	9,321	9,489	8,485
Earnings before interest	4,211	2,785	3,637
Net Interest	2,621	1,775	1,927
Internal income ¹	6,218	16,752	3,824
Operating surplus/(deficit)	13,050	21,312	9,388
Less:			
Contribution to general rates	6,945	6,032	6,916
Earnings retained	6,105	15,280	2,472
OPERATING SURPLUS OF INDIVIDUAL INVESTMENTS			
Liquid financial deposits	2,015	1,819	1,795
WRC Holdings ¹	7,490	17,643	4,513
Treasury management	2,864	2,033	2,931
Forestry	570	(91)	(300)
Business units and property	111	(92)	449
Operating surplus	13,050	21,312	9,388

	2009/10 \$000s	2010/11 \$000s	2011/12 \$000s
NET CONTRIBUTION TO GENERAL RATES FROM INDIVIDUAL INVESTMENTS			
Liquid financial deposits	2,015	1,819	1,795
WRC Holdings	916	930	283
Treasury management	3,750	3,274	4,271
Forestry	225	225	225
Business units and property	39	(216)	342
Total contribution to general rates	6,945	6,032	6,916

¹ Internal income is used to fund the new Matangi trains' purchase carried out by the 100% Council-Controlled Trading Organisation, Greater Wellington Rail Ltd.

For more information on the revenue and financing mechanisms applicable to this group of activities, please refer to the Revenue and Financing Policy in the *Policies Document*.

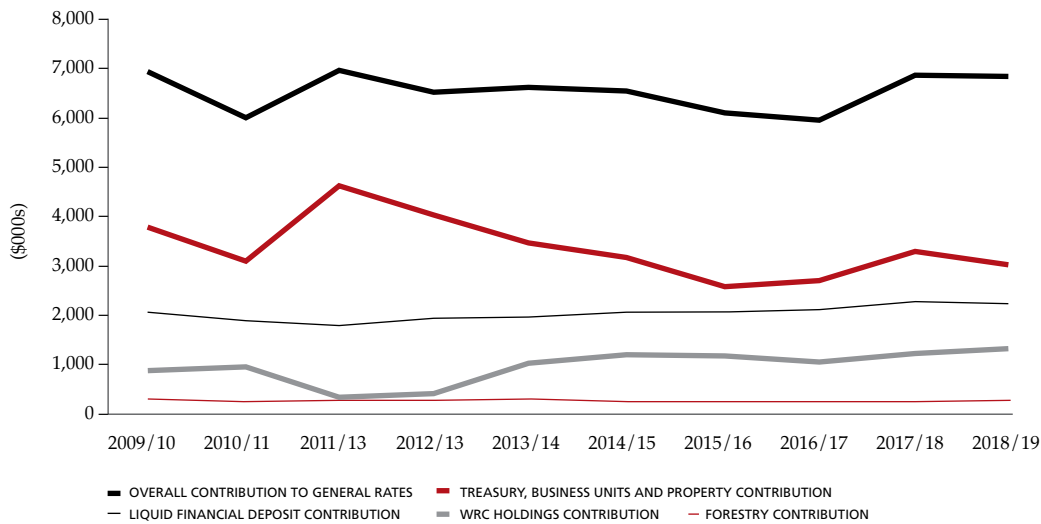
Please note that all figures on this page exclude GST.

INVESTMENTS

10-YEAR FINANCIAL FORECAST

This graph places the prospective income statement for the next year in the context of the 10-year planning horizon.

Please note that these figures exclude GST.



(\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Overall contribution to general rates	6,945	6,032	6,916	6,604	6,657	6,594	6,172	5,952	6,861	6,827
Liquid financial deposit contribution	2,015	1,819	1,795	1,924	1,997	2,046	2,063	2,063	2,228	2,228
WRC Holdings contribution	916	930	283	354	899	1,081	1,227	1,017	1,124	1,315
Forestry contribution	225	225	225	225	225	225	225	225	225	225
Treasury, business units and property contribution	3,789	3,058	4,613	4,101	3,536	3,242	2,657	2,647	3,284	3,059