WRC Holdings Group Statement of Intent

(Covering the period to 30 June 2009 and the following 2 years)

Updated 11 July 2008

Contents

1. Scope of Statement of Intent (SOI)

1.1 This SOI relates to WRC Holdings Limited and its subsidiary companies Pringle House Limited (PHL), Port Investments Limited (PIL), CentrePort Ltd (CentrePort), Greater Wellington Rail Ltd (GWRL), together the WRC Holdings Group (the Group).

WRC Holdings is an entity established under the Local Government Act 2002 (LGA). It, and its wholly owned subsidiaries are Council Controlled Trading Organisations (CCTO) as defined under the LGA. CentrePort, a partly owned subsidiary is not a CCTO as its activities are governed by the Port Companies Act 1988.

2. Reasons for the WRC Holdings Group

- Impose commercial discipline on the Group's activities and produce an appropriate return by ensuring appropriate debt/equity funding by requiring a commercial rate of return.

- Separate Greater Wellington's commercial assets from its public good assets.

- Provide a structure to allow external Directors with a commercial background to provide advice and expertise.

- Minimise the risks of owning commercial assets such as rail rolling stock.

3. Objectives and Activities of the Group

3.1 General

The primary objectives of the Group shall be to:

(a) Support the Council's strategic vision, operates successful, sustainable and responsible businesses.

(b) Own and operate Greater Wellington's headquarters at 142-146 Wakefield Street, Wellington (known as the Regional Council Centre) on a cost effective basis.

(c) Own Greater Wellington's interest in CentrePort Ltd, to maximise the commercial value of CentrePort to the shareholders and to protect the shareholders' investment, including land and property while maintaining CentrePort's strategic value to the economy of the region.

PIL owns 76.9% of CentrePort, the other 23.1% is owned by Horizons Regional Council.

(d) Own Greater Wellington's current and future investments in rail rolling stock.

(e) Manages its assets prudently.

(f) Where appropriate provide a commercial return to shareholders.

3.2 Activities of the Group

a) WRC Holdings Ltd is the holding company for PHL, PIL, GWRL and indirectly CentrePort.

b) Owns and operates the Regional Council Centre at 142-146 Wakefield St.. The building is owned by PHL who leases it out on commercial terms to Greater Wellington, NZ Immigration and AIG.

The management of the building is undertaken by Greater Wellington's property consultants, O'Brien Property.

c) Owns Greater Wellington's investments in rail rolling stock via GWRL.

GWRL currently owns 18 carriages used on the Wairarapa Line, at a cost of $26 million.

During 2007/08 a contract was entered into with Rotem Mitsui for the supply of 90 Matangi electric units (EMUs) with an option to purchase up to 6 additional EMUs. The units will be delivered in stages commencing 2010. These assets are, and will be leased to Kiwi Rail (formerly Toll) for the provision of passenger services.

d) 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 service (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)

e) Monitor the performance of CentrePort through the board of PIL.

f) Effectively manage any other investments held by the Group in order to maximise the commercial value to the shareholders and to protect the shareholders' investment.

g) Act as a diligent constructive and inquiring shareholder.

4. Environmental and Social performance targets

4.1 CentrePort

- **Environment**

  (a) CentrePort to comply with AS/NZS 14000: Environmental Management Standards.

  (b) CentrePort to comply with its Port Noise Management Plan.

  (c) CentrePort to maintain an environment issues register of environmental complaints for monitoring and actioning purposes. The register to be reported to CentrePort's Health, Safety and Environment Committee on a regular basis (meets at least 3 times per annum).

  (d) CentrePort will hold a minimum of three environmental consultative committee meetings in 2008/09 comprising CentrePort and affected stakeholders (customers, port users, local authorities and residential groups). The meetings provide a forum to identify and inform on a range of environmental port related matters.

  (e) Implement and maintain monitoring systems for fumigant discharges associated with the pest treatment of cargoes.

- **Social**

  (a) CentrePort to 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.

  (b) CentrePort to maintain compliance with the International Ship & Port Security (ISPS) Code which promotes security against terrorism within the port environment.

  (c) CentrePort to undertake risk assessments and implement any mitigating procedures relating to the Port & Harbour Safety Code which promotes safety and excellence in marine operations.

  (d) To undertake a level of sponsorship appropriate to CentrePort.

  (e) To meet regularly with representative community groups of CentrePort.

4.2 Group (excluding CentrePort)

- **Environment**

  a) Operate in an environmentally and sustainable manner.

  b) Minimise the impact of any of the Group's activities on the environment.

  c) Raise awareness of environmental issues within the Group.

  d) Ensure Pringle House becomes more energy efficient.

- **Social**

  (a) Be a leading organisation and a superior employer.

  (b) Provide a safe and healthy workplace.

  (c) Participate in development, cultural and community activities within the regions in which the Group operates.

  (d) To help sustain the economy of the region.

5. Governance of the Group

5.1 The shareholder, Greater Wellington Regional Council, appoints the directors to WRC Holdings Ltd in terms of the Council's approved process. Section 57 of the Local Government Act 2002 requires that directors have the skills, knowledge and experience to:

- Guide the organisation, given the nature and scope of its activities and to;

- Contribute to the achievement of the objectives of the organisation. The shareholder also approves the directors of PHL, PIL and GWRL. These are appointed by WRC Holdings Ltd by way of a special resolution. There is a commonality of directors between WRCHL, PHL, PIL and GWRL.

- The directors of CentrePort are appointed by PIL.

5.2 Any changes to the constitutions of the companies within the Group are approved by the shareholder.

5.3 Greater Wellington monitors the performance of the Group on a regular basis to evaluate its contribution to the achievement of its objectives, performance against the Group's statement of intent and Greater Wellington's overall aims in accordance with section 65 (1) of the Local Government Act 2002.

5.4 The directors monitor the performance of each company at each board meeting.

6. Financial Information

6.1 Forecasts

	Year ending 30 June		
	2008/09 $'000'	**2009/10 $'000'**	**2010/11 $'000'**
Revenue	63,210	74,829	87,450
Operating costs	44,313	47,495	59,150
Earnings before interest and tax	18,897	27,334	28,300
Finance costs	10,735	16,202	19,391
Net profit before tax	8,162	9,132	8,910
Tax	4,094	4,314	3,435
Net profit after tax	4,068	4,818	5,475

The increase in revenue is due to:

- Amortisation of grants received from Greater Wellington to income.
- Increase in rental income from CentrePort's commercial properties.

Operating costs are forecast to increase due to depreciation on the new rail rolling stock.

The increase in finance costs is due to the funding costs for CentrePort's commercial property being expensed as buildings are completed and earn rental income. Prior to a building's completion, finance costs are capitalised to the cost of the building.

6.2 Performance targets

	2008/09 ($000)	2009/10 ($000)	2010/11 ($000)
Net profit (deficit) before tax	8,162	9,132	8,910
Net profit (deficit) after tax	4,068	4,818	5,475
Earnings before interest, tax and depreciation.	29,165	38,484	43,986
Return on total assets	4.35%	4.93%	4.11%
Return on shareholder equity	1.66%	1.89%	1.98%
Dividends	245	445	432

Definitions of key financial performance targets:

(a) Consolidated shareholders funds are defined as the amount of paid up capital, plus retained earnings of the Group, less any minority interests.

(b) Total assets are defined as all of the recorded tangible and intangible assets of the Group at their current value as determined in the Group’s statement of accounting policies in the most recent financial statements.

(c) Return on shareholders funds is calculated using net profit after tax while return on total assets is calculated using earnings before interest and tax.

The returns noted above exclude two items:

- Gains on the revaluations of land and buildings both in CentrePort and PHL. In respect of the year ending 30 June 2007 revaluations totalled $16.6 million.
- The interest income from the deposits held by Greater Wellington, $3.7 million as a result of the sale of shares.

If these amounts are included then the Group made a return on equity in respect of 2006/07 of 12.4%.

6.3 Accounting Policies

The detailed accounting policies of the company will be consistent with the legal requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the International Financial Reporting Standards.

7. Issues facing the Group

7.1 CentrePort Ltd

7.1.1 Port

Ports in New Zealand are facing a number of issues, in particular:

- For the size of the country New Zealand has a large number of ports. In addition the shipping lines have been amalgamating with bigger ships being used, reducing the number of ship visits. The shipping lines push to rationalise port calls in New Zealand have been triggered by a necessity to reduce exposure to high charter rates and fuel costs and their ability to source larger vessels. It is foreseeable that there will be further consolidation between international shipping lines as they search for market shares and economies of scale.

- The combination of the above had resulted in increased competition between ports for visits by the shipping lines.

- There is overcapacity in most of the ports but there is still a requirement to upgrade infrastructure.

- New Zealand is potentially heading into a recession, this may impact on port operations and profitability in the short to medium term.

- The use of methyl bromide to fumigate logs.

7.1.2 Property

CentrePort owns, and is developing, a number of commercial properties. The funding of future properties will require some restructuring of their balance sheet to allow some third party equity. This will require shareholder approval.

CentrePort plan to set up a new property company to own and manage their existing and new developments. There would be a separate board of directors for the property company. This change will also be approved by the shareholders.

The impact of a potential recession in New Zealand may reduce CentrePort's ability to develop further property expansion.

7.1.3 General

The planned increase in the level of debt resulting from property development and infrastructure upgrades will provide additional pressure on CentrePort's balance sheet.

The global credit crisis will increase margins on CentrePort's borrowings.

7.1.4 Methyl Bromide

The use of methyl bromide in the Port has become an issue during the year. As mitigation, CentrePort has undertaken in conjunction with regulatory authorities, a review of the following:

- Fumigation protocol.
- Engagement of an independent consultant to implement a testing regime.
- Engaged computer modelling expert to develop an air modelling plan.

7.2 Pringle House Limited

The major issues facing Pringle House are:

- Volatility in the valuation of the building impacting financial statements under the International Financial Property Standards.
- Ongoing maintenance of the Regional Council Centre.
- The lease of the building to Greater Wellington is due to expire in 2010.
- NZ Immigration lease expires in November 2008, indications are they will not review their lease.

7.3 Greater Wellington Rail Limited

The funding of GWRL investment in rail rolling stock has and will be a mixture of capital grants and share capital from its ultimate shareholder, Greater Wellington. The shareholder in turn is funded by Land Transport New Zealand, external debt and Government loans.

The EMU contract for the supply of 90 Matangi EMUs (with an option for a further 6 units) has been signed and will be a major focus for the next 2-3 years. GWRL/Greater Wellington is using Halcrow, Kiwi Rail (formerly Toll) and Ontrack for professional technical advice on this project.

The major issues for this project are:

- Ensuring the technical specifications of the Matangi EMUs are agreed and will interface with the infrastructure.
- Upgrading the existing infrastructure to meet the requirements of the new trains. This is the responsibility of ONTRACK.
- Ensuring that the budget is not exceeded.

The recent sale of Toll's rail operations to Government may require some changes to the arrangements between GWRL and the Crown. This will be a major issue for both GWRL and Greater Wellington in 2008/09.

7.4 WRC Holdings Ltd

The $44 million banking facility with CBA expires in late 2009, there will be some pricing risk in replacing/renewing this facility.

8. Distribution of profits to shareholders

8.1 The dividend policy for each company will be reviewed by the boards of each company from time to time, after taking account of the wishes of the shareholder, the future circumstances as they may exist and the successful achievements of the commercial objectives of each company.

8.2 The expectation in terms of CentrePort is that the dividend will be the maximum practicable amount consistent with CentrePort's intention to increase asset values substantially through the reinvestment of profits. Dividend levels will be reviewed by the Board each year, and agreed with the shareholder. The forecast dividend for the 2008/09 financial year is $5.17 million comprising a fully imputed dividend of $4 million and an un-imputed dividend of $1.17 million.

CentrePort and the shareholder will work together, as part of the review of CentrePort's structure, to determine a sustainable dividend policy for the future.

8.3 In terms of the remainder of the WRC Group the expectation is that the dividends paid will be the maximum practical amount. It is and currently expected to be 100% of after tax earnings, excluding unrealised gains/losses.

9. Information to be Reported

The Group will maintain regular reporting to the shareholders on the implementation of policies in accordance with statutory requirements and in particular will:

(a) Within three months after the end of each financial year, produce an audited set of financial statements that are consistent with IFRS. The Directors will also report on:

- a review of operations
- a summary of achievements measured against the performance targets
- the dividend.

(b) Within two months of the end of the first half of each financial year, produce a half yearly set of financial statements:

(c) Provide further financial information that meets shareholder expectations (format and timetable to be agreed) on a regular basis.

10. Procedures for the Purchase and Acquisition of Shares

10.1 The Boards of PHL, PIL, and GWRL will obtain the prior approval of Greater Wellington Regional Council before any of those companies subscribes for, purchases or otherwise acquires shares in any company or other organisation, which is external to the Group. (N.B: CentrePort is governed by a separate constitution.)

10.2 Section 60 of the Local Government Act 2002 requires that all decisions relating to the operation of the company must be made in accordance with its SOI and its constitution.

11. Compensation

11.1 Councillors, who are also directors of WRCHL, PHL, PIL, and GWRL, will receive travelling expenses based on the rates applicable to members of the Council. Directors of those companies, who are not members of the Council, will receive directors' fees as approved by the Council from time to time.

11.2 The WRC Group of companies will seek compensation by agreement from Greater Wellington Regional Council for :

(a) Rental and tenancy expenses with regard to the occupation of the Regional Council Centre.

(b) Interest and financial costs relating to the provision of any inter-company loans, other financing arrangements and current account balances that may accrue.

(c) Any other function, duty or power they wish the Group to carry out on their behalf and which involves the supply of goods and services.

12. Value of Shareholder's Investment

12.1 The commercial value of the Regional Council Centre will be determined annually by an independent property valuer in accordance with the company's accounting policies, and reported in the statement of financial position.

12.2 A re-assessment of the valuation of other investments will be undertaken as may be required from time to time by the directors or shareholders.