Attachment 1 to Report 10.353

wrc
holdings group

WRC Holdings Group Statement of Intent

(Covering the period to 30 June 2011 and the following 2 years)

Updated May 2009

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 they make up WRC Holdings Group (the Group).

WRC Holdings is 100% owned by Greater Wellington Regional Council (Greater Wellington).

WRC Holdings is an entity established under the Local Government Act 2002 (LGA). WRC Holdings 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

- To impose commercial discipline on the Group's activities and produce an appropriate return to shareholders and ensuring appropriate debt/equity ratio.
- To separate Greater Wellington's commercial assets from its public good assets.
- To provide a structure to allow external Directors with a commercial background to provide advice and expertise.
- To minimise the risks of owning commercial assets such as rail rolling stock.

3. Objectives and Activities of the Group

3.1 Objectives

The primary objectives of the Group shall be to:

(a) Support Greater Wellington's strategic vision, operate successful, sustainable and responsible businesses.

(b) Manage its assets prudently.

(c) Where appropriate, provide a commercial return to shareholders.

(d) Adopt policies that prudently manage risks and protect the investment of its shareholders.

3.2 Activities of the Group

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

b) It 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 Chartis.

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

c) 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 or progressed.

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

4.1.1 Environment

a) Develop and maintain a formal environmental management system consistent with the standards specified in AS/NZS ISO 14001: 2004.

b) Formally review, at least annually, the company's compliance with all environmental legislation, district and regional plans and conditions of resource consents held.

c) Maintain a sustainability programme with measurable performance criteria covering, as a minimum, the monitoring of waste and greenhouse gas emissions.

d) 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

e) Monitor compliance of the use of Methyl Bromide for the fumigation of log shipments and work collaboratively with Greater Wellington and Crown agencies to investigate alternative fumigation options.

f) Maintain an environment issues register of environmental complaints and issues for monitoring and actioning purposes. The register to be reported to CentrePort's Health, Safety and Environmental Committee on a regular basis (meets 4 times per annum).

g) Measure CentrePort's carbon footprint on an average tonnage and ship call basis, benchmark the footprint against similar entities, and develop a plan to reduce that footprint

h) CentrePort Ltd will hold a minimum of three Environmental Consultative Committee meetings in 2010/11 comprising CentrePort Ltd and affected 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.

CentrePort will report achievement against these targets as part of our annual report including specific initiatives to enhance the environment in which we operate.

4.1.2 Social

a) Measure and report the impact of CentrePort's commercial activities on regional economic growth through the commissioning of an independent assessment by suitably qualified consultants by 31 December 2010.

b) Contribute to the desired outcome of the Wellington Regional Strategy through:

   i. The provision of workplace opportunities and skills enhancements of our employees.

   ii. Ensuring the regional economy is connected by the provision of high quality port services to support international and coastal trade.

   iii. Supporting the regional community by investing in community sponsorship (a targeted increase of 50% in 2011 compared to 2010)

c) Maintain the 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.

d) Annual review of Health and Safety Policy.

e) Maintain compliance with the International Ship & Port Security (ISPS) Code which promotes security against terrorism within the port environment.

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

g) To meet regularly with representative community groups.

4.1.3 General

a) The company will, in consultation with the 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.

b) 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.
   - Definition of terms (para 4.1.3.b) refers).

c) Management of tenancy risk means that each single property investment has committed rental income (via executed lease contracts) that is sufficient to meet forecast interest costs on (i) the cost of the site development related to the development and (ii) the cost of the construction of the development AND the vacant net lettable area of the proposed development is no greater than 25%.

4.2 Group (excluding CentrePort)

4.2.1 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 operates in an energy efficient manner.

4.2.2 Social

(a) Provide a safe and healthy workplace.

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

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

5. Governance of the Group

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

- Guide the Group, given the nature and scope of its activities; and to
- Contribute to the achievement of the objectives of the Group.
- 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 and Horizons Regional Council.

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 LGA 2002.

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

6. Financial Information

6.1 Financial forecasts

Income Statement	Year ending 30 June			
	2009/10 $'000'	**2010/11 $'000'**	**2011/12 $'000'**	**2012/13 $'000'**
Revenue	67,485	78,318	91,426	101,816
Operating costs	59,728	66,848	78,498	88,208
Earnings before interest tax and depreciation	**28,246**	**37,327**	**43,198**	**50,259**
Depreciation	8,887	10,570	14,335	20,766
Earnings before interest and tax	**19,359**	**26,756**	**28,863**	**29,492**
Finance costs	11,601	15,286	15,936	15,885
Surplus before tax	**7,758**	**11,471**	**12,928**	**13,608**
Tax	3,965	4,488	4,898	5,218
Surplus after tax	**3,793**	**6,983**	**8,029**	**8,390**

Balance Sheet	Year ending 30 June			
	2009/10 $'000'	**2010/11 $'000'**	**2011/12 $'000'**	**2012/13 $'000'**
Shareholders Funds	**181,536**	**185,003**	**204,102**	**212,552**
Current Assets	9,876	10,715	13,724	13,553
Term Assets	567,072	617,911	751,450	761,980
Total Assets	**576,948**	**628,626**	**765,173**	**775,533**
Current Liabilities	10,899	14,213	17,992	18,313
Term Liabilities	384,514	429,409	543,080	544,668
Net assets	**181,535**	**185,003**	**204,102**	**212,552**

6.2 Financial commentary

Revenue increases stem from mainly from GWRL due to increased grants to cover the rising depreciation and operating costs from the Matangi Train purchase.

The $3 million increase in surplus after tax from 2009/10 to 2010/11is due to CentrePort adopting a conservative budget as a result of the economic down turn.

The reduction in finance costs in 2012/13 results from a reduced debt level in CentrePort in that year.

6.3 Performance targets

	2010/11 ($000)	**2011/12 ($000)**	**2012/13 ($000)**
Surplus before tax	11,471	12,928	13,608
Surplus after tax	6,983	8,029	8,390
Earnings before interest, tax and depreciation.	37,327	43,198	50,259
Return on total assets	4.81%	4.14%	3.83%
Return on shareholder equity	3.09%	3.17%	2.99%
Dividends	940	1,022	1,210

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.

6.4 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

- New Zealand is in the midst of a traditional economic recovery with the New Zealand economy finishing 2009 on a strong note. The goods producing sectors are leading the way out of recession, and NZ is currently enjoying the benefits of record commodity prices.
- Global healing is continuing but the recovery is not uniform. The global recovery has become even more imbalanced. The US and Europe are working through structural difficulties including weak housing markets and banking systems, and fiscal unsustainability. Meanwhile, Asian and Australian economic growth is strengthening rapidly.
- Forecast financial performance for the port sector reflects the continued recovery in performance from the recession driven expectations built in to the 2010 budget.
- Notwithstanding an improved macro-economic environment, risks remain to CentrePort from a high $NZ, forestry commodities and shipping line consolidations and/or route reconfigurations.

- The benefits of a diversified portfolio are evident in 2011 forecasts as improved port profitability from volume and price increases off-set higher property interest costs. Key features of forecast port performance in 2011 are:
  - Forecast container volume of 102,000 TEUs meaning the company breaks through the 100,000 TEU barrier for the first time
  - 60 cruise vessel visits up 30% on 2010
  - Income from forestry products up 14% compared to 2010
  - Gross margin improvement of 1.7%.

- CentrePort's key export customer Winstone Pulp International (WPI) is currently tendering its shipping and port services. Should WPI choose to exit CentrePort the loss of revene would have a significant impact on profitability (circa $3m).

7.1.2 Property

CentrePort owns, and is developing Harbour Quays, a commercial property business park. The increase in the level of debt resulting from property development and infrastructure upgrades has been funded from CentrePort's balance sheet. Group debt is forecast to fund 52% of total assets. There is little scope for additional funding for any new property investments.

The funding of future properties will require some restructuring of CentrePort's balance sheet. This is planned to be achieved through the recycling of capital through the introduction of third party equity via a proposed sell-down of three Harbour Quays buildings. This transaction will require shareholder approval.

The impact of the New Zealand recession may reduce short term demand for further property development opportunities.

In 2010, CentrePort's property operations benefited from the RBNZ's economic stimulus through the easing of monetary policy and historical low rates for bank fees. These benefits unwind in 2011 and are the major contributor to a reduction in pre-tax profitability of $1.2m compared to 2010.

The Customs building will be completed in September 2010 and will provide a positive contribution to financial performance in fiscal year 2011.

7.1.3 Debt

CentrePort's 2011 debt is forecast to be $194 million being $9 million below debt facility levels of $203 million. This means the company has debt headroom of $9 million to accommodate any economic shocks and take advantage of investment opportunities. The proposed partial sell-down of three Harbour Quays buildings will improve debt headroom and meet capital structure targets for an indicative "BBB" rating.

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 to Chartis expires September 2010, but they only occupy 2.5% of the lettable area of the building.

7.3 Greater Wellington Rail Limited

The Government has signalled its intention to take over ownership of the rail rolling stock currently owned or under construction for GWRL. Detailed discussions have not commenced with the Government and are unlikely to occur until 2011.

There are a number of issues which will need to be resolved, in particular:

- Timing, GWRL's preference is that the Matangi project is completed prior to any sale/transfer.
- Future funding requirements in respect of rail operations.
- The rail rolling stock is a strategic asset for Greater Wellington, as such, Greater Wellington is obliged to consult with the public under current legislation.
- Taxation impacts.
- The SW Cars and additional rolling stock were partly funded by an interest free Government loan. This will need to be eliminated/repaid.
- What happens to the funds that GWRL/Greater Wellington has paid to fund their share of the rail rolling stock?

For the purpose of this SOI given there is no firm commitment from the Crown it is assumed business as usual.

In the meantime the Matangi project will continue.

The major issues for this project are:

- Ensuring the Matangi EMUs are built and arrive in New Zealand as per contractual specifications.
- Upgrading the existing infrastructure to meet the requirements of the new trains. This is the responsibility of KiwiRail.
- Ensuring that the budget is not exceeded.

7.4 Port Investments Limited

PIL is an investment company for Greater wellington and holds the shares in CentrePort Ltd. PIL has a $44,000,000 loan from WRC Holdings which is serviced by dividends from CentrePort. A significant reduction in dividends from CentrePort may result in restructuring of the loan.

8. Distribution of profits to shareholders

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.

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 2010/11 financial year is $4.0 million.

The Directors of CentrePort have adopted a dividend policy that provides for dividends to be between 40% and 60% of underlying tax paid profit (excluding fair value changes) effective from the 2010/11 financial year. The target dividend payout ratio reflects free cash-flow after providing for capital expenditure plans and the Board's gearing targets.

In terms of the remainder of the WRC Group the expectation is that the dividends paid will be the maximum practical amount. It is expected to be 100% of after tax earnings, excluding unrealised fair value adjustments.

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 International Financial Reporting Standards (IFRS). The Directors will also report on:

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

(b) Reporting to the shareholder each quarter.

(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.