wrc
holdings group

STATEMENT OF INTENT

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

1. Scope of Statement of Intent (SOI)

1.1 This statement of intent relates to WRC Holdings Limited (the company) 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).

2. Reasons for the WRC Holdings Group (the 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 of the group

3.1 The primary objectives and activities of the group shall be to:

(a) To support the Council's strategic vision, operate as a successful, sustainable and responsible business.

(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. The building is owned by PHL and leased on commercial terms to Greater Wellington, NZ Immigration and AIG.

(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) CentrePort owns and operates the port of Wellington and related facilities at Seaview and Miramar. It also owns and operates a number of commercial properties. Current tenants include Statistics New Zealand, Telstra Clear and NZ Rugby Union. Currently CentrePort is constructing a major building which will house the Bank of New Zealand. In 2008 construction will commence on a building for NZ Customs.

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

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 electric multiple units (EMUs) with an option to purchase up to 6 additional EMUs. The units will be delivered in stages commencing 2010.

(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.

3.2 The financial objectives of the group shall be to:

(a) Where possible provide a commercial return to shareholders.

(b) Adopt policies that prudently manage risk and protect the investment of shareholders.

3.3 The environmental objectives of the group shall be to:

(a) Operate in an environmentally responsible 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 CentrePort and Pringle House become more energy efficient and make greater use of renewable energy.

3.4 The social objectives of the group shall be to:

(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.

4. Governance of the group

4.1 The shareholder, Greater Wellington Regional Council, appoints the directors of the company 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 the company by way of a special resolution. There is a commonality of directors between WRCHL, PHL, PIL and GWRL.

4.2 Any changes to the constitutions of the companies within the group are approved by the shareholder.

4.3 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.

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

5. Nature and Scope of Activities to be Undertaken

5.1 WRCHL is the holding company for PHL, PIL, GWRL, and indirectly, CentrePort.

5.2 The provision of commercial rental premises as owner and lessor of the Regional Council Centre, the building situated at 142-146 Wakefield Street, Wellington and the associated provision of property management services to Greater Wellington pursuant to any management agreements.

5.3 Monitor the performance of CentrePort through the board of PIL. CentrePort has its own separate board (appointed by PIL and Horizons Regional Council) but PIL undertakes the role of shareholder and has to approve major transactions undertaken by CentrePort.

5.4 The ownership of Greater Wellington's investment in public transport infrastructure. These assets are and will be leased to Toll New Zealand for the provision of passenger rail services in the Greater Wellington region. The Wairarapa carriages are currently leased to Toll at a nominal amount.

However, the recent sale of Toll's rail operations to the Government may involve some changes to these arrangements.

5.5 The provision of investment management services for any other current and future investments held within the group.

5.6 The nature and scope of the group's activities will be reviewed regularly in consultation with the shareholders.

6. Ratio of Consolidated Shareholders Funds to Total Assets

6.1 Definition of terms:

(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 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.

7. Accounting Policies

7.1 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.

8. Performance Targets

8.1 The following are the WRC Holdings Group's financial performance targets:

The amounts below incorporate the results of CentrePort draft SCI dated 30 April 2008.

CentrePort is governed by (amongst other things) the Port Companies Act 1988 which requires them to deliver their SCI not later than one month after the commencement of the financial year. The Local Government Act 2002 requires the draft SOI to be delivered to the shareholder by 1 March.

	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) Net profit before tax.

(b) Net profit after tax, but before deduction of minority interest

(c) Earning Before Interest, Tax and Depreciation.

(d) Earnings before interest and tax as a percentage of average total assets.

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

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

CentrePort has a targeted return on equity which aims at it being in the top four of comparable New Zealand Ports.

8.2 The following are the group's environmental performance targets:

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

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

(c) The group to comply with all conditions under resource consents and permits held, and full adherence to the requirements of environmental law generally.

(d) 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).

(e) CentrePort Ltd will hold a minimum of three environmental consultative committee meetings in 2008/09 comprising CPL 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.

(f) Establish a sustainability programme with measurable performance criteria.

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

8.3 The following are the group's social performance targets:

(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.

8.4 The following are the Groups General performance Targets

(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.

(c) Definition of terms (para b) refers:

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%.

(d) CentrePort Board has partition the company into two business streams of port and property. Shareholders support this initiative to achieve an optimum company structure, while simultaneously developing the property asset base and maintaining focus on the port operations. CentrePort and shareholders will continue to work collaboratively on the implementation of an optimum company structure encompassing legal entities, asset segregation and financing and dividend policy.

9. Distribution of Profits to Shareholders

9.1 The company policy on the provision of the net profits to be distributed to shareholders (after deductions for taxes and interest) will be reviewed by the board of the company from time to time, after taking account of the wishes of the shareholder, according to the future circumstances as they may exist and the successful achievements of the commercial objectives of the company.

9.2 The expectation in terms of CentrePort is that the dividend will be the maximum practicable amount consistent with the Company'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 on a rolling three-year basis. 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.

The Company and shareholder will work together – as part of the review of Company structure (refer section 5.8 of CentrePort's SCI) – to determine a sustainable dividend policy for the future.

In terms of the rest of the WRC Group the expectation is that the dividend paid by the company will be the maximum practical amount, and currently is expected to be 100% of after tax earnings, excluding unrealised gains/losses on investment property, depreciation/impairment of the Group's public transport infrastructure assets.

10. Information to be Reported

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

(a) Within two 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 included in sections 7.1 to 7.3
- the maximum dividend (if any) recommended.

(b) Within two months of the end of the first half of each financial year, produce a half yearly companies: within the group comprising:

- An abridged, unaudited statements of the financial performance and financial position with explanatory notes; and
- A brief report from the directors of the company operations for the half year and outlook for the second half of the year.

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

(The above reporting requirements are specified under Sections 66 and 67 of the Local Government Act 2002.)

11. Procedures for the Purchase and Acquisition of Shares

11.1 The boards of directors of the company, PHL, PIL, and GWRL will obtain the prior approval of Greater Wellington 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.)

11.2 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 statement of intent and its constitution.

12. Compensation

12.1 Councillors, who are also directors of the company, PHL, PIL, and GWR, 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.

12.2 The company will seek compensation by agreement from Greater Wellington 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 company to carry out on their behalf and which involves the supply of goods and services.

13. Value of Shareholder's Investment

13.1 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.

13.2 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.

14. Other Areas

14.1 Review of Statement of Intent

The company shall approve by 1 March of each year a draft statement of intent for the consideration of shareholders.

The company must then consider any comments on the draft statement of intent that are made to it within two months of 1 March by the shareholders and deliver the completed statement of intent to the shareholders by 30 June.

15. Issues Facing the Group

15.1 CentrePort Ltd

15.1.1 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.

15.1.2 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.

15.1.3 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.

15.1.4 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.

15.2 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.

15.3 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 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, Toll and Ontrack for professional technical advice on this project.

The major issues for this project are:

- Ensuring the technical specifications of the 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.

15.4 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.

16. Total returns for the group

	2008/09 ($000)	2009/10 ($000)	2010/11 ($000)
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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 2008 revaluations totalled $16.6 million.
- The interest income from the deposits held by Greater Wellington, $3.7 million.

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