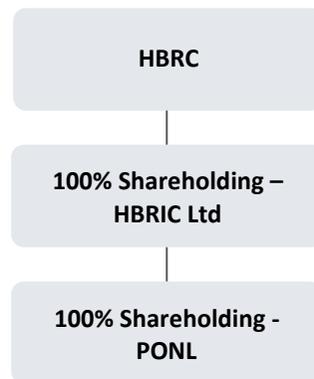


Introduction

In February 2012 Hawke’s Bay Regional Council (HBRC) established a Council Controlled Trading Organisation in the Hawke’s Bay Regional Investment Company (HBRIC Ltd). HBRC has a 100% shareholding in HBRIC Ltd which has a 100% shareholding in the subsidiary company, the Port of Napier Limited (PONL).



Policy and Objectives in Relation to Ownership and Control

HBRIC Ltd and PONL are both strategic assets of HBRC and will therefore require a special consultative process if any of the shareholding was to be sold down, or any other major capital transaction was to occur. HBRC will retain beneficial control of Napier Port through its wholly owned investment company. In the event it contemplates reducing its interest in Napier Port from its present 100% shareholder to not less than 51% (i.e. still retaining control) by selling shares to a third party (or parties) or by changing how the Napier Port is managed and operated, it will comply with the provisions of Section 97(1)(b) of the Local Government Act 2002.

A strategic assets is defined in the Local Government Act 2002 as “an asset or group of assets that the local authority needs to retain to maintain its capacity to achieve or promote any outcome that it determines to be important to the current of future well-being of the community”. Council’s strategic assets are listed in its Significance and Engagement Policy.

HBRC’s objectives in setting up HBRIC Ltd are to:

- Enhance HBRC’s capability to actively manage transferred strategic assets for its portfolio.
- Improve net financial and economic returns from these assets.
- Provide flexibility of operation not otherwise available directly to HBRC which would increase returns to HBRC from its ongoing financial management.

Nature and Scope of the Activities

The nature and scope of HBRIC Ltd’s activities are to:

- Own and manage the investment assets and liabilities transferred to it by HBRC.
- Encourage and facilitate subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment and dividend payments.
- Ensure that best practice governance procedures are applied to the key regional infrastructure and financial investments that are under HBRIC Ltd’s ownership.
- Monitor the performance of each subsidiary and associated company against their stated economic, environmental and social performance objectives and against relevant benchmarks, ensure that they have proper governance procedures in place, and promote sustainable business practices.
- Advise HBRC on strategic issues relating to its investments including, but not limited to, ownership structures, capital structures and rates of return.
- Perform financial, custodial and other functions required by HBRC which may include:
 - Grouping together HBRC’s ownership of its subsidiary companies.
 - Separation of the subsidiary companies from the ordinary operations of HBRC.
 - Smoothing the cash flows to HBRC from its subsidiary companies.
 - Enabling diversification of the Region’s income streams for the benefit of ratepayers.
 - Enhancing HBRC’s capability to manage an active investment policy.

- Comply with the LGA provisions requiring a special consultative process, and with HBRC policies, in regard to any disposal or part-disposal of shares in any Strategic Asset, for example by way of part sales of shares in Napier Port.
- Advise HBRC of any material capital expenditure projects by HBRIC Ltd or via its subsidiaries

Key Performance Targets

HBRIC Ltd is to actively manage its allocated investment portfolio and any new investment it makes to ensure:

- Growth in long term shareholder value
- Increased financial and strategic returns
- Investments are secure and sustainable over the long term
- Investments will assist achievement of HBRC’s regional strategic development objectives.

Specific financial performance targets are outlined in the following table

Consolidated Performance Targets	
Performance Indicator	Target
Net debt to net debt plus Equity	<40%
Interest cover (EBIT/Interest Paid)	>3x
EBITDA/Total Assets	9%
Return on Shareholders’ Funds	5%

Notes: EBIT = Earnings Before Interest and Tax
 EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation