STATEMENT OF CORPORATE INTENT 2011/2012

MISSION STATEMENT

To operate the Company as a successful business providing cost efficient, effective and competitive services and facilities for port users and shippers.

To provide for the present and future needs of the Company in ways that are sensitive to people, use resources wisely and are in harmony with the environment of an export port.

OBJECTIVES

1 To operate as a successful business.

2 To be a good employer.

3 To work within a debt equity ratio not exceeding 45.0% (31/69)

4 To aim to grow the business through stimulation of throughput, added value services and related business activities, so leading to increased revenue.

5 To achieve a commercially acceptable rate of return on shareholders funds in accordance with meeting the objectives herein.

6 To ensure that Port development takes place which meets the needs of the region.

7 To ensure that high environmental standards are maintained.

8 To strive for continuous improvement in everything that we do.

Performance and other Measurements

Performance shall be judged against the following measures:

Performance description	10/11 Actual (10/11 Budget)	Measure 11/12
1 Lost Time Injury ("LTI") frequency rate.	3.9 (1.5)	Less than the previous year
2 Debt/equity ratio compared with measure.	22/78 (28.4%) (23/77 (29.3%))	31/69 (45.0%) Not to exceed measure
3 Dividends paid compared with the target.	$4.2 million ($4.2 million)	$4.2 million
4 a) Return on average funds employed. b) Return on average shareholders funds.	7.3% (6.1%) 4.9% (4.3%)	6.8% (2011/2012 budget) 5.2% (2011/2012 budget)

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5 Sustainability and environmental measures Note: This measure relates to port operational area only (excludes port lease areas).	Incidents leading to pollution of harbour Full compliance Compliance with all resource consent conditions Full compliance	Incidents leading to pollution of harbour Target - nil Compliance with all resource consent conditions Target -full compliance
6 Navigation and safety – Compliance with New Zealand Maritime Safety requirements in respect of; o Dredged channels compliant with charts o Navigation aids o Pilotage	Full compliance Full compliance	Full compliance
Monitoring and Reporting	**10/11 Actual**	**Measure 11/12**
Breaches of noise level guidelines will be disclosed, however new noise level standards are in the process of being set. Breaches will be reported against the new guidelines. Resource useage will be reported against previous years for disclosure purposes only. Note: External and internal environmental incidents will be disclosed, however are not part of the performance targets.	Awaiting ratification of new noise variation. Resource useage e.g – water, electricity, fuel	Breaches of noise level guidelines Resource useage e.g – water, electricity, fuel
Activity Measure	**10/11 Actual (10/11 Budget)**	**Measure 11/12**
a) Annual cargo tonnes compared with target.	2.71 (2.66) million tonnes	2.79 million tonnes
b) Annual ships visits and gross tonnes of shipping compared with target.	849 (808) visits 7.8 m (7.9) Gross tonnes	864 visits 8.2 m Gross tonnes
c) Total revenue compared with target	$38.3 m ($36.0m)	$39.5 m
d) Capital expenditure for the year approved by the Directors compared with target.	$10.0 m ($3.7m)	$3.6 m

Financial Targets

The Measure for Financial Performance (measure 4) is based on the following year budget and does not allow for asset revaluation increases. The Benchmark returns that Port Nelson is aiming for are:

a) Return on average funds employed. 9.0%

b) Return on average shareholders funds. 6.0%

Note: The Benchmark returns are based on the portfolio of assets currently employed by Port Nelson and an optimal capital structure. The Target Measure for the next SCI year is based on budget and thus reflects the business risks that Port Nelson faces on a yearly basis.

LTI frequency rate = $\frac{\text{Lost time injuries}}{\text{Hours worked in period}} \times 100{,}000$

Return on average funds employed = Earnings Before Interest and Tax/average shareholder equity + net interest bearing debt

Return on average shareholder funds = Net Profit After Tax / average shareholder funds

Nature & Scope of Existing Activities;

- The provision of all services, navigation aids, access and plant required for the safe arrival, berth, and departure of vessels at Port Nelson.
- The provision of berths to accommodate vessels at the port.
- The provision of wharves and plant to facilitate the discharge and loading of vessels.
- The provision of all services required by a vessel while it is in port.
- The provision of all services required for cargo while it is in the company's care.
- The marshalling and stevedoring of cargo.
- The maintenance and repair of all company assets.
- The leasing of land and buildings not required for port operating purposes.
- The warehousing and storage of goods.
- Cargo logistic services.
- Strategic Investments in order to insulate the business from economic shocks and to assist in attaining earnings growth. Shareholders to be consulted prior to committing to any such investments.
- Any other activity required to comprehensively manage and operate a safe, efficient, and competitive port.

Ratio of Shareholders Funds to Total Assets

Shareholders funds are defined as paid up capital, plus retained earnings and reserves. Net Debt is defined as term and short term debt less any cash in bank. Total assets are defined as the sum of current assets and non current assets. The ratios for the next three years are expected to be;

	Shareholders Funds/Total Assets	Net Debt/Equity
2012	70.5%	23.9%
2013	74.4%	21.3%
2014	77.1%	17.4%

General Accounting Policies

a) Those accounting principles considered appropriate by the NZ Institute of Accountants for the measurement and reporting of results and financial position under the historical cost method, modified by the revaluation of land shall be followed.

b) The going concern concept shall be adopted.

c) Accrual accounting shall be used to match income and expenses.

Particular Accounting Policies

Specific Accounting policies will be detailed in the financial statements.

Dividend Policy

(a) The dividend payable to shareholders will be determined:

  (1) Taking account of the shareholders expectation that not less than 50% and the Port Nelson Board expectation that not more than 75% of net profit after tax shall be distributed to the shareholders. Special dividends are not covered by this policy.

  (2) In accordance with rolling three years projections provided annually as to likely profits and capital reserves taking into account and based on the Company's forward financial plan. Estimates are:

  2012 $4.2 million
  2013 $4.3 million
  2014 $4.3 million

(b) In determining the dividend projections regard shall be had to the desired debt equity ratio.

Information to be provided

The following information will be made available:

1. Half-yearly report covering abbreviated Profit and Loss Statement and abbreviated Balance Sheet, performance indicators, commentary on activities, Cash Flow Statement, and other such information as the Directors consider necessary to enable an informed assessment of the Company's performance during the period being reported.

2. Any other information that would normally be available to a controlling private shareholder, thereby enabling the shareholder to assess the value of his investment in the Company.

3. Any other matters that the shareholders and the directorate agree shall be disclosed as appropriate.

Procedure to be followed with purchase of shares in other company or organisation

The procedure to be followed before subscription for, or purchase of, or other acquisition of shares in any Company or organisation, shall be by resolution of the Directors, excepting that any significant diversification or addition to existing activities will be referred to the shareholders for approval.

Director's Estimate of Company Value

The director's estimate that the opening balance of shareholder's funds in the annual accounts will represent the value of the company. The directors will advise the shareholders on an annual basis if they believe the value to differ materially from this state. The opening balance of shareholders funds at 1 July 2010 is $133,935,000.

Dated this ....day of 2011

Signed by Port Nelson Limited

Chairman ....

Director ....

Signed by the Nelson City Council

Mayor ....

Chief Executive ....

Signed by the Tasman District Council

Mayor ....

Chief Executive ....

8 August 2011

Hugh Kettlewell

Executive Manager Support Services

Nelson City Council

PO Box 645

Nelson 7040

Dear Hugh

Statement of Corporate Intent Debt Equity ratio

As the Joint Shareholders are aware Port Nelson has been undertaking an internal review of the debt equity ratio contained within the Statement of Corporate Intent ("SCI"). The review is as a result of the vastly changed insurance world that has developed post the Christchurch earthquakes and the necessity to self insure via the Port Nelson balance sheet due to either increased deductibles or lack of cover over strategically important port assets previously covered by insurance.

Material changes in the cover are that there is now a NZ$10m deductible on material damage cover, thus requiring greater than $10m damage for the policy to respond. Additionally, all wharves with 15 years or less of economic life can only be insured for indemnity value and demolition. Thus at Port Nelson, only one wharf is insured for replacement and the remaining four for indemnity value only. It so happens that the four older wharves have an indemnity value of $10m combined, thus the policy will only start to respond in a situation where all five wharves are damaged to the extent that they all need replacing. Note that this analysis does not take into account the numerous lease berths that Port Nelson owns and leases to third parties.

When undertaking the analysis it became apparent that there is a fine line between a wharf suffering "minor" damage and then being structurally unsound. The moment that a wharf is structurally unsound the only remediation available is full replacement of the wharf due to the stresses and loads a wharf must handle during normal operational activity. The four older wharves are constructed using methods that are not as earthquake "tolerant" as the newest wharf - Main Wharf South.

The current SCI maximum debt level (debt equity at 66.67%) would enable Port Nelson to have a maximum debt level approximating $80m. This level is only just below the debt covenant maximums and is not considered in any way feasible in a "business as usual" scenario.

The cost to partially replace wharves is estimated at $20m, being $30m less the $10m deductible. This figure does not envisage a "like for like" replacement but more an approach that gives the port a number of working berths to allow ongoing operations.

The requirement for the Shareholders to also be able to receive ongoing dividends has also been considered, even if Port Nelson is also in a period of operational and financial stress. In order to achieve this outcome a further amount must be provided for in the balance sheet for dividends as it is unlikely that there would be surplus cash flow to pay dividends for a period of time. An amount of $5m has been calculated as the additional necessary head room required.

Thus, in order for the Shareholders and the Port Nelson board and management to have confidence that post a significant natural disaster that it could continue to operate, rebuild and pay dividends it is prudent to reduce the maximum debt level as per the SCI to approximately $55m, based on the existing balance sheet values. This figure equates to a figure of 45% (31/69).

An analysis was also undertaken of the other New Zealand ports. Excluding ports with either no debt or extreme levels that are trying to sell assets in order to re balance their balance sheet, the average debt equity level is approximately 38%. A figure of 45% allows some further movement above the New Zealand average, whilst allowing head room for self insurance.

The figure of 45% should not be seen as a business as usual figure, but an upper limit that could be reached under yet to be foreseen circumstances whilst retaining a level of self insurance. The softening economy and additional risk associated with a reduction in insurance cover and a changed view re natural disaster risk for ports in New Zealand supports a prudent approach to reducing the SCI allowable maximum debt equity ratio at this time. A future softening of the insurance market or downward revision of risk applicable to natural events and ports would allow a review of the debt equity ratio at some future point in time.

Therefore, the Port Nelson board recommends to the Shareholders that Objective 3 contained in the draft 2011-2012 Statement of Corporate intent be changed to read as;

"*To work within a debt equity ratio not exceeding 45.0% (31/69).*"

Yours sincerely

PORT NELSON

Nick (AO) Patterson

cc: Murray Staite