

## **Public Excluded**

## **Report PE-99.233**

10 May 1999

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Report to the Policy and Finance Committee  
from Greg Schollum, Chief Financial Officer

## **Port Wellington Convertible Notes**

### **1. Purpose**

To update the Committee on the likely decision regarding the redemption or conversion of Port Wellington convertible notes (convertible notes are in effect, borrowing for Port Wellington and an investment of Port Investments Limited on which interest is currently received. The notes are also convertible from borrowing into additional shares in Port Wellington).

### **2. Public Excluded**

Grounds for the exclusion of the public under Section 48(1) of the Local Government Official Information Act 1987 are:

*That the public conduct of the whole or relevant part of the meeting would be likely to result in the disclosure of information for which good reasons for withholding exists, i.e., to carry on commercial activities.*

### **3. Background**

Councillors will be aware that Port Investments Limited (Council's 100% owned subsidiary) currently holds \$7.7 million worth of convertible notes in Port Wellington.

The Convertible Note Agreement provides that the decision to redeem (return to shareholders) or convert (convert to share capital) rests with Port Wellington Directors. The current agreement expires on 28 June 1999 (but can be extended by mutual consent).

Port Wellington Directors intend to decide by the end of May 1999 whether to redeem or convert the convertible notes.

#### 4. Council's Preferred Position

Officers of both shareholders (WRC/Port Investments Limited and Horizons MW) have been consulted and the Directors of Port Investments Limited considered the matter at their Directors' meeting on 5 May 1999. While the convert or redeem decision is not a matter for Port Investments Limited to decide, the Directors noted their comfort with a strategy which would see:

- The convertible notes convert into additional share capital in Port Wellington
- The Port Company pay out to shareholders a special dividend, fully imputed (of the same or a lesser amount than the convertible notes, ie not less than 75%)
- If the special dividend was for a lesser amount (e.g., \$7.7M x 75% = \$5.8M) the Directors of Port Wellington would be encouraged to increase the dividend percentage in future years from 50% to 60% of Net Profit After Tax

(NB: The Directors of PIL have indicated that any special dividend of a lesser amount should only be accepted if there is an increase in the ongoing dividend percentage paid by Port Wellington).

The benefits of this strategy include:

- The special dividend can be passed up from Port Investments Limited to Council, resulting in tax exempt income in the hands of the Council.
- The special dividend will provide funds to Council's Treasury function for the purpose of debt repayment to meet upcoming debt maturities.
- By accepting a lower special dividend than the face value of the convertible notes, the Port Company in effect will receive increased equity and therefore increased flexibility, which should also enable it to pay out an increased dividend percentage in future.
- Any increase in dividend payout above 50% will provide further income in future years to PIL and therefore provide further ability to pay dividends up to Council (to ease the pressure on the rate line).

While the ultimate decision as to conversion or redemption rests with the Directors of Port Wellington, officers have signalled PIL's preferred position to the Port Company.

#### 5. Recommendation

*That the report be received and the contents noted.*

GREG SCHOLLUM  
Chief Financial Officer