

WRC Holdings Limited Group

Statement of Intent

For the years to 30 June 2018, 2019 and 2020

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1. Introduction

This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The SOI specifies for WRC Holdings Limited and its subsidiaries, the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the Group and individual companies may be judged in relation to their objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between the Group and its Shareholder, Greater Wellington Regional Council.

The SOI is reviewed annually with the Council and covers a three year period.

2. Scope of Statement of Intent (SOI)

2.1 This SOI relates to WRC Holdings Group Limited and its subsidiary companies, Port Investments Limited (PIL), CentrePort Ltd (CentrePort), and Greater Wellington Rail Ltd. Together they make up WRC Holdings Group (the Group).

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

WRC Holdings is an entity established under the Local Government Act 2002 (LGA). WRC Holdings Ltd and its wholly owned subsidiaries are Council Controlled Trading Organisations (CCTOs), and Council Controlled Organisations (CCOs) 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.

3. Reasons for the WRC Holdings Group

- Appropriate separation of management and governance;
- To determine appropriate strategies for the Group and its subsidiary companies;
- To impose commercial discipline on the Group's activities where applicable, produce an acceptable return to shareholders, and ensure an appropriate debt/equity ratio;
- To separate the Regional Council's commercial assets from its public good assets, where appropriate¹;

¹ Note that whilst the business of owning and maintaining rolling stock is a commercial activity, the provision of public transport services is more of a public good activity.

- To provide a structure to allow external Directors with a commercial background to provide advice and expertise at the governance level;
- To minimise the risks and optimise the opportunities of owning commercial assets, such as rail rolling stock.

4. Objectives and Activities of the Group

4.1 Objectives

The core role of the Board of WRC Holdings Limited is to determine the Group's strategy and monitor the Group's investment in Rail infrastructure and Centreport, both of which service the region's infrastructure needs and to ensure they deliver on the Group's objectives as follows:

- a) Support the Regional Council's strategic vision; operate successful, sustainable and responsible businesses.
- b) Manage its assets prudently.
- c) Where appropriate, provide a commercial return to Shareholders except in the case of GWRL which will provide agreed outcomes to the Regional Council.
- d) For GWRL, prudently manage and maintain the rail rolling stock and rail infrastructure (GWRL's Rail Assets) through a management service agreement entered into with the Regional Council, providing for asset management, accounting, advisory, secretarial and general administration services and in particular:
 - Ensure the Regional Council as its appointed agent carries out all services and activities, in relation to the GWRL's Rail Assets, that are reasonably necessary to enable the Regional Council to provide quality rail services to the public in accordance with the contractual obligations entered into with the current rail operator of the rail services and maintenance provider of GWRL's Rail Assets; and
 - Ensure GWRL complies with its responsibilities as a rail participant under the Railways Act 2005, current health and safety legislation and any other legislation affecting GWRL's Rail Assets and operations;
 - Ensure GWRC develops and maintains a systematic approach for the long-term management of GWRL's public transport rail assets in a manner consistent with industry best practice.
- e) For CentrePort via Port Investments Limited to ensure Centreport:
- f) maximises the commercial value of CentrePort to the Shareholder and protect the Shareholder's investment, including land and property, while maintaining the strategic value to the economy of the region.

- g) delivers competitive financial returns compared to industry benchmarks (port and comparable sectors).
- h) adopts policies that prudently manage risk and protect the investment of stakeholders.
- i) ensures that a recovery plan from the recent earthquakes is developed in consultation with stakeholders taking into account the strategic needs of the stakeholders and the region.
- j) ensures resilience plans are featured in the recovery plan and the CentrePort's planning process takes a longer term view of opportunities for redevelopment of the port and for this work to be undertaken in collaboration with the regional council, local councils and other key stakeholders, and in consultation with the public.
- k) Adopt policies that prudently manage risks and protect the investment of its shareholders.
- l) Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when possible.
- m) Conduct its affairs in accordance with sound business practice.
- n) Achieve the objectives and performance targets of the Shareholder.

4.2 Activities of the Group

WRC Holdings Limited

WRC Holdings Limited is the holding company for PIL, GWRL and indirectly CentrePort.

It effectively manages any other investments held by the Group in order to maximise the commercial value to the Shareholder and to protect the Shareholder's investment.

WRCH acts as a diligent constructive and inquiring Shareholder, through its Board of Directors.

Greater Wellington Rail Limited

GWRL owns the Regional Council's investments in metro rail assets. These include the following rolling stock and infrastructure assets:

Rolling Stock:

- 18-SW Carriages
- 6- SE Carriages
- 1- AG Luggage van
- 2- Remote controlled electric Shunt crabs (delivery July 2017)

83 - 2 Car Matangi units

Infrastructure Assets:

Thorndon electric multiple unit (EMU) depot and EMU train wash
Metro wheel lathe and building
48 – Railway stations including shelters, furniture, CCTV, signage,
fixtures and fittings - (excluding the main Wellington central
station)
14 – Pedestrian over-bridges
11 – Pedestrian underpasses
Various carparks, other station improvements and other ancillary rail
related assets.

Greater Wellington Rail Limited is responsible for all aspects of asset management, procurement and stewardship, implemented through a management contract with the Regional Council. An asset management plan is in place which articulates a structured programme to minimise the life cycle costs of asset ownership while maintaining the desired levels of service and sustaining the assets.

Operational delivery of the services is the responsibility of the Regional Council delivered via a long term (expiry 2031) contract performance based “Partnering Contract” with Transdev Wellington Limited for rail services and rolling stock maintenance.

Transdev have subcontracted the rolling stock maintenance services to Hyundai-Rotem Company. Hyundai-Rotem were the manufacturers of the GWRL Matangi fleet.

Planned expenditure on rail assets over the next 3 years includes \$40 million for renewal work and like-for-like replacement of rail related infrastructure, heavy maintenance/overhauls on the first Matangi Fleet, and up to \$10 million on the SW and SE cars to extend their lives.

Port Investments Limited

Port Investments Limited is an investment vehicle that owns 76.9% of CentrePort Limited.

The major usual activities of CentrePort, who produce their own Statement of Intent, similar to this SOI, 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 and storage).

Port Investments monitors the performance of CentrePort. This is achieved via a Statement of Intent (SOI), Letter of Expectation in terms of the SOI, Quarterly meetings with CentrePort's Chair and Management, and Chair and management briefings with the Regional Council's Chief Executive and Chair.

5. Financial and Operational Performance Targets

5.1 WRC Holdings Group

The following section covers the operating performance targets and the financial performance targets of the companies making up the WRC Holdings Group. WRC Holdings Limited

Operational performance targets

- (a) WRC Holdings to act as a responsible and inquiring Shareholder.
- (b) WRC Holdings to hold a meeting at least six times a year to review the operational and financial position of the companies and Group.
- (c) WRC Holdings Group to report quarterly on the financial performance of WRC Holdings Group to Council.
- (d) WRC Holdings Group to present quarterly on WRC Holding Group activities to Council and to keep Council informed of significant matters as they occur.
- (e) Statement of Intent and Annual Accounts are in compliance with statutory requirements.

Financial performance targets

	WRC Holdings Limited		
	2017/18	2018/19	2019/20
Dividend distribution \$ 000s	-	-	-
Dividend distribution %	0%	0%	0%
Return on equity (1)	(0.0%)	(0.1%)	(0.1%)
Return on assets (2)	0.4%	0.4%	0.4%
Shareholders funds to total assets	84.2%	85.0%	85.5%

(1) Based on net surplus before tax divided by average equity, but excluding revaluation gains and losses.

(2) Based on earnings before interest and tax, divided by average assets

No dividend is forecast as a result of CentrePort forecasting no dividend for PIL. Return on equity is negative as WRC Holdings has costs with no offsetting revenue to cover them. Return on assets is positive as interest is calculated before interest costs.

5.2 Greater Wellington Rail Limited Operational performance targets

Asset management plan: Rail assets are maintained in accordance with the maintenance schedules

Level of Service	2017/18 Target
ROLLING STOCK - ASSET MANAGEMENT	
Days 100% availability not met	Matangi: ≤1 day per month
	Carriage fleet: ≤1 day per month
Average condition grade of :	Matangi <2.5
	Carriages <2.5
Mean distance between failure	Matangi: ≥40,000km
	Carriages: ≥80,000km
RAIL FIXED ASSET - ASSET MANAGEMENT	
Percentage of facilities with CCTV coverage	71%
Average condition grade of:	Station buildings & shelters: <2.5
	Structures (subways & bridges): <2.5
	Park & Ride: <2.5
Percentage of assets in condition grade 4 (Poor) or worse	Station buildings & shelters: 10%
	Structures (subways & foot bridges): 15%
	Park & Ride: 20%

NB: Conditional grade score – 1: Is very good condition and, 5: very poor condition requiring replacement.

Capital project targets

- Deliver train maintenance services within approved budgets through an operations and maintenance contract ensuring that train availability and reliability targets are met.
- Deliver infrastructure cleaning, maintenance and security services within approved budgets through various contracts ensuring asset condition does not deteriorate.
- Implement rail infrastructure asset renewals and like-for-like replacement programme in accordance with the asset investment priority framework.

Financial performance targets

(a) Operating costs are maintained overall within budget

	GWRL		
	2017/18	2018/19	2019/20

(b) Shareholder's funds to total assets	81.7%	82.6%	83.7%
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5.3 Port Investments Limited, Parent & Group including CentrePort

Operational performance targets

- (a) Port Investments to act as a responsible and inquiring Shareholder of CentrePort.
- (b) CentrePort to report at least four times a year to Port Investments Limited and for the Board to approve significant transactions of CentrePort as determined by the constitution.
- (c) Performance indicators for CentrePort as noted below.
- (d) Production of Annual Accounts is in compliance statutory requirements.

Financial performance targets

	Port Investments Limited		
	2017/18	2018/19	2019/20
Dividend distribution \$ 000s	-	-	-
Dividend distribution %	0%	0%	0%
Return on equity (1)	(87.3%)	(766.8%)	119.4%
Return on assets (2)	(0.2%)	(0.3%)	(0.4%)
Shareholder's funds to total assets	1.9%	(1.1%)	(4.7%)

- (1) Based on net surplus before tax divided by average equity, but excluding revaluation gains and losses.
- (2) Based on earnings before interest and tax, divided by average assets

6. CentrePort Performance Targets

6.1 Financial Performance measures

Extract from CentrePort's 2018 – 2020 SOI.

The Group's performance is measured against the following ratios:

Measure		Outlook FY17	Forecast FY18	Forecast FY19	Forecast FY20
Group EBIT plus JV & Associate Earnings ('Group EBIT')	\$m	16.9	24.0	22.3	12.1
Port EBIT plus JV & Associate Earnings ('Port EBIT')	\$m	14.7	20.6	19.7	13.8
Property EBIT plus JV & Associate Earnings ('Property EBIT')	\$m	2.2	3.4	2.6	(1.7)
Underlying Net Profit Before Tax	\$m	12.1	20.1	19.4	10.8
Underlying Net Profit After Tax ('Underlying NPAT')	\$m	10.0	15.9	15.2	7.8
Dividend	\$m	0.7	-	-	-
Shareholders' Funds ('Equity') or Net Assets	\$m	152.3	244.4	351.5	455.6
Number of issued shares	000	23,425	23,425	23,425	23,425
Group EBIT Return on Assets	%	6.5%	10.8%	7.5%	3.1%
Port EBIT Return on Port Assets	%	8.7%	13.2%	8.5%	4.2%
Property EBIT Return on Property Assets	%	2.4%	5.0%	3.8%	-2.5%
Underlying NPAT Return on Group Equity	%	5.4%	8.0%	5.1%	1.9%
Dividend Distribution as a %ge of Underlying NPAT	%	7.0%	0.0%	0.0%	0.0%
Underlying earnings (NPAT) per share	\$	0.42	0.68	0.65	0.33
Dividend per share	\$	0.03	-	-	-
Net Asset backing per share	\$	6.50	10.43	15.01	19.45

Definition of Terms:

- Return on Assets for each business segment
 - Port

Earnings before interest and tax (EBIT) plus share of associate earnings divided by the average of total fixed assets and investments in Associates.
 - Property

EBIT plus share of associate earnings divided by the value of investment properties plus investment in associates. This calculation is performed separately on the value of developed investment properties and the total portfolio.
- Return on Equity

Underlying net profit after tax* divided by average equity.
- Dividend

Dividend as a percentage of underlying net profit after tax*
- Underlying earnings per share

Underlying net profit after tax* divided by number of shares issued.
- Dividend per share

Dividend divided by number of shares.

- Net Asset backing per share
Shareholders' Funds or Net Assets divided by number of shares.

* 'Underlying NPAT (net profit after tax)' excludes the fair value movements from cash flow hedges and investment property valuations reported through the income statement.

References to FY are to Financial Years ended 30 June. For example, FY18 means financial year ended 30 June 2018

6.2 Financial Health measures

The CPL Group's financial health is measured against the following ratios:

Financial Health	Target	Outlook	Forecast	Forecast	Forecast
		FY17	FY18	FY19	FY20
Current Assets (\$m)	n/a	18.3	59.0	67.3	25.0
Current Liabilities (\$m)	n/a	7.5	8.7	6.7	6.0
Total Assets (\$m)	n/a	213.7	309.0	414.1	469.4
Shareholders Funds - Equity (\$m)	n/a	152.3	244.4	351.5	455.6
Term Borrowings (\$m)	n/a	40.5	42.0	45.0	0.0
Debt (\$m)	n/a	49.1	47.7	47.9	0.0
Equity Ratio	> 45%	71.3%	79.1%	84.9%	97.1%
Gearing	< 50%	24.4%	16.3%	12.0%	0.0%
Interest cover	> 2.5 times	4.2 times	11.1 times	9.7 times	19.8 times
Solvency Ratio	> 0.6	2.45	6.79	10.01	4.18

Definition of Terms:

- Shareholders' Funds (or equity) is defined as the total issued capital plus the balance of undistributed profits and all revenue and capital reserves less any minority interests of the parent company, CentrePort Limited, and its subsidiaries ("the Group").
- Total Assets are defined as all the recorded tangible and intangible assets of the Group at their current value as determined by the Group's Accounting Policies.
- Equity Ratio is Shareholders' Funds divided by Total Assets
- Debt is the sum of Interest Bearing Debt (Borrowings) and Financial Liabilities arising from financial instruments
- Gearing is the ratio of Debt to Debt plus Equity (Shareholders Funds)
- Interest cover is the ratio of free funds from operations to interest expense. It is measured as Earnings before interest, tax depreciation and amortisation ('EBITDA') plus dividends received from investments in associates and joint ventures divided by the Interest Expense.
- The Solvency Ratio is Current Assets divided by Current Liabilities.

6.3 Safety and Security

Specific areas of focus for Safety and Security within the Port over FY18-20 are:

Objective	Performance measure	Performance target		
		<i>FY18</i>	<i>FY19</i>	<i>FY20</i>
Year on year improvement towards zero harm	Implementation of five year action plan	Year one action items completed	Year two action items completed	Year three action items completed
	Lost Time Injury Frequency (per 200,000 hours worked)	≤ 3.6	≤ 3.2	≤ 3.2
	Lost Time Injury Severity (per 200,000 hours worked)	≤ 50	≤ 40	≤ 40
	bSafe Reports (incident and near miss reports)	> 800	> 900	> 900
Comply with the AS/NZS 4801: Occupational Health and Safety Management Systems	AS/NZS 4801 audit completed in alternate years to WSMP	Compliance with AS/NZS 4801	Compliance with AS/NZS 4801	Compliance with AS/NZS 4801
Maintain a Health and Safety Policy that leads our zero harm aspiration and actions	Policy reviewed annually against CentrePort's objectives and external benchmarks	Compliance with Policy	Compliance with Policy	Compliance with Policy
Maintain and promote excellence in Marine Operations consistent with the Port & Harbour Safety Code (PHSC)	The requirements of the PHSC continue to be met	No breaches of the PHSC	No breaches of the PHSC	No breaches of the PHSC
	Risk assessments of new tasks or reviews post incident completed	All new task risk assessments and post incident reviews complete	All new task risk assessments and post incident reviews complete	All new task risk assessments and post incident reviews complete
Maintain compliance with the International Ship & Port Security (ISPS) Code	Compliance is maintained, all incidents are reported to MNZ and NZ Customs Service, and learning reviews are undertaken and recommendations implemented	Compliance Maintained	Compliance Maintained	Compliance Maintained

6.4 Environmental

Specific areas of focus for Environmental management of the Port over FY18-20 are:

The performance targets for our environmental objectives are:

Objective	Performance measure	Performance target		
		<i>FY18</i>	<i>FY19</i>	<i>FY20</i>
Ensure regulatory compliance	Compliance breaches	Zero	Zero	Zero
Minimise risk to the environment	System: consistency with ISO14001	Audit and first stage certification ¹ complete	Audit and second stage certification complete	Audit and third stage certification complete (full ISO14001 compliance)
	Incidents: number of registered environmental incidents (FY2015 baseline – 32)	Minimum 10% decrease from base line – NB new incident reporting system introduced	Minimum 15% decrease from base line	Minimum 20% decrease from base line
	Complaints: number of complaints from external stakeholders about environmental performance	Zero	Zero	Zero
Realise opportunities to be more sustainable	Greenhouse gas emissions (quantity CO ₂ equivalent) emissions measured in accordance with ISO 14064 –1:2006 and the Greenhouse Gas Protocol.	Emissions intensity reduction plan and targets complete (reduction targets for FY19-20 to be set) Verified annual emissions inventory complete	Meet intensity reduction target	Intensity reduction target Verified annual emissions inventory complete
	Ozone depleting substances used (quantity methyl bromide released to atmosphere)	100% use of recapture technology for container fumigation	100% use of recapture technology for container fumigation	100% use of recapture technology for container fumigation

Environment performance targets - continued

Objective	Performance measure	Performance target		
		<i>FY18</i>	<i>FY19</i>	<i>FY20</i>
Realise opportunities to be more sustainable (cont)	Solid waste to landfill (quantity)	Waste minimization plan developed. Waste minimization integrated into EQ recovery projects	Waste minimization integrated into EQ recovery	Waste minimization integrated into EQ recovery
Ensure regulatory compliance	Compliance breaches	Zero	Zero	Zero
Minimise risk to the environment	System: consistency with ISO14001	Audit and first stage certification ¹ complete	Audit and second stage certification complete	Audit and third stage certification complete (full ISO14001 compliance)
	Incidents: number of registered environmental incidents (FY2015 baseline – 32)	Decrease from previous year	Decrease from previous year	Decrease from previous year
	Complaints: number of complaints from external stakeholders about environmental performance	Zero	Zero	Zero
Realise opportunities to be more sustainable	Greenhouse gas emissions (quantity CO ₂ equivalent) emissions measured in accordance with ISO 14064 –1:2006 and the Greenhouse Gas Protocol.	Emissions intensity reduction plan and targets complete	Intensity reduction target to be advised Verified annual emissions inventory complete	Intensity reduction target to be advised

6.5 Social performance targets

Specific areas of focus for our Social activities over FY18-20 are:

- a) 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. Collaborating with key partners of CentrePort's business to improve service outcomes.
- b) Supporting the regional community by investing in community sponsorship and engaging in community activities
- c) To meet regularly with representative community groups.

6.6 General performance targets

Other specific areas of focus over FY18-20 are:

- a) The company will, in consultation with the shareholders, continue to develop performance targets in the financial, environmental and social areas.
- b) CentrePort will report achievement against the above targets in the quarterly reports to shareholders and the annual report. The report will include specific initiatives to enhance the environment in which we operate.
- c) CentrePort will also report in its quarterly report to shareholders the company's strategy when it is completed with quarterly updates of any amendments to the strategy.
- d) When developing 'property held for development' the Board is to adhere to the following principles:
 - i. Properties may be developed without the building being fully pre-let so long as tenancy risk is managed prudently.
 - ii. Property developments must not compromise port operations.
 - iii. Developments are to be undertaken only if they are able to be funded without additional capital from shareholders.
 - iv. Development construction contracts are to be negotiated on a guaranteed maximum price or lump sum basis.

Definition of terms regarding property:

Management of tenancy risk means that each single property investment has committed rental income (via development and 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%.

7. Governance of the WRC Holdings Group

The Shareholder, the Regional Council, appoints the directors to WRC Holdings Ltd in terms of the Regional Council'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 PIL and GWRL. These are appointed by WRC Holdings Ltd by way of a special resolution. There is a commonality of directors between WRC Holdings Ltd, PIL and GWRL.

The directors of CentrePort are able to be appointed by CPL Board.

Any changes to the constitutions of the Companies within the Group are to be approved by the Shareholder.

The Regional Council 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 the Regional Council's overall aims in accordance with section 65 (1) of the LGA 2002.

The Directors monitor the performance of each Company at each Board meeting.

The WRC Holdings Board intends to review its strategy and structure in 2017, taking the opportunity to consider a more strategic focus for the Board and to introduce standard governance systems and procedures, including a Board Charter and annual reviews.

8. Financial Information

8.1 Prospective statement of comprehensive income

Year ended 30 June	2017/18	2018/19	2019/20
\$'000	WRCH GROUP	WRCH GROUP	WRCH GROUP
<u>Prospective statement of comprehensive income</u>			
Dividends & Equity Earnings	3,786	2,897	(1,363)
Grant from GWRC - Operating	11,125	11,262	11,316
Rental income	7,943	9,114	9,272
Interest income	159	131	96
Other revenue incl BI & loss of rents	66,909	72,760	71,183
Total revenue	<u>89,922</u>	<u>96,164</u>	<u>90,504</u>
Interest expense	5,117	4,097	2,557
Depreciation	22,557	26,214	29,910
Other expenditure	61,116	67,123	69,087
Earthquake related items	(72,180)	(89,859)	(94,161)
Total expenditure	<u>12,604</u>	<u>5,517</u>	<u>5,335</u>
Surplus/(deficit) before tax	77,319	90,647	85,169
Taxation expense (credit)	(764)	(1,153)	(2,661)
Total comprehensive income (NPAT)	78,082	91,800	87,829
Total comprehensive applicable to non-controlling interest	21,260	24,723	24,015
Total comprehensive income applicable to parent	56,822	67,077	63,814

8.2 Prospective statement of financial position

As at 30 June \$000	2017/18 WRCH GROUP	2018/19 WRCH GROUP	2019/20 WRCH GROUP
<u>Prospective statement of financial position</u>			
Opening equity	456,135	552,207	653,548
Opening equity non -controlling interests	(35,141)	(56,400)	(81,123)
New equity	17,990	9,541	14,083
Total comprehensive income applicable to parent	56,822	67,077	63,814
	495,806	572,425	650,323
Dividends distributed	-	-	-
Closing Equity Non-controlling interest	56,401	81,123	105,138
Closing equity	552,207	653,548	755,461
Equity applicable to parent	495,807	572,425	650,323
Non- controlling interest	56,400	81,123	105,138
Closing equity	552,207	653,548	755,461
Current assets	68,015	75,069	31,357
Non- current assets	603,377	688,818	782,795
Investments	68,427	70,074	67,461
Total assets	739,819	833,961	881,613
Current liabilities	13,727	11,946	11,402
Borrowings	86,050	89,050	44,050
Non current liabilities	87,835	79,417	70,700
Total liabilities	187,611	180,413	126,152
Net assets	552,207	653,548	755,461

8.3 Prospective statement of changes in equity

As at 30 June \$000	2017/18 WRCH GROUP	2018/19 WRCH GROUP	2019/20 WRCH GROUP
<u>Prospective statement of changes in equity</u>			
Opening equity	456,135	552,207	653,548
Shares to be issued during the year	17,990	9,541	14,083
Total comprehensive income for the year	78,082	91,800	87,829
Dividend to be paid - Equity holders	-	-	-
Dividend to be paid - Non controlling Interests	-	-	-
Closing Equity	552,207	653,548	755,461
Total comprehensive income attributed to:			
Equity holders - Parent	56,822	67,077	63,814
Non - controlling interest	21,260	24,723	24,015
Total comprehensive income for the year	78,082	91,800	87,829

8.4 Prospective statement of cash flows

Year ended 30 June \$000	2017/18 WRCH GROUP	2018/19 WRCH GROUP	2019/20 WRCH GROUP
<u>Prospective statement of cash flow</u>			
Cash flows from operations			
Receipts from operations Incl BI proceeds	97,544	117,942	102,343
Interest received	2,273	1,149	1,222
Dividends received	17,798	1,250	1,250
Payments to suppliers/employees	(69,978)	(76,487)	(80,557)
Taxes paid	(3,475)	(6,209)	(5,020)
Interest paid	(4,940)	(3,920)	(2,470)
EQ Temporary work expenditure	(18,220)	(1,084)	
Net cash from operating activities	21,001	32,641	16,768
Cash flows from investing activities			
Purchase of Fixed Assets - Rail	(17,990)	(9,541)	(14,083)
Development/EQ rebuild	(78,403)	(102,115)	(109,805)
Proceeds sale of Property/JV proceeds	6,750	-	-
Material Damage insurance proceeds	49,058	64,639	149,162
Net cash from investing activities	(40,585)	(47,017)	25,274
Cash flows from financing activities			
Borrowings	1,500	3,000	(45,000)
Issue of shares	17,990	9,540	14,082
Current Account movement	1,333	1,074	1,201
Net cash from financing activities	20,823	13,614	(29,717)
Net increase/(decrease) in cash & cash eqvts	1,239	(762)	12,325
Cash & cash equivalents at beginning of the year	4,013	5,252	4,490
Cash and cash equivalents at year end	5,252	4,490	16,815

Financial Statements commentary

The prospective statement of comprehensive income is significantly influenced by the impact of the November earthquake on Centreport and its forecast insurance proceeds.

The Dividend & equity earnings is showing a loss in 2019/20 and this stems from an assumption that repairs to commercial properties may take longer than the 3 year insurance indemnity period following the earthquake.

The Other revenue includes proceeds from CentrePort's business interruption and loss of rents insurance. These covers are only for 3 years and tail off in 2019/20, as Centreport does not expect to fully recover its lost revenues from the earthquake by 2019/20.

Interest expense declines in 2019/20 as debt is reduced to nil in CentrePort by 30 June 2020. This is temporary as insurance proceeds (currently used to repay debt) will be used in future to be applied against capital expenditure.

The depreciation increases as both CentrePort and GWRL are increasing their rebuild and capex programmes.

The other expenditure increase is driven mainly by CentrePort and relates to the Port revenue growth.

The Earthquake related items refer to the forecasted material damage proceeds from insurers.

The tax credit/income represents the difference between CentrePort paying tax and GWRL having a tax credit from deferred tax in GWRL.

Equity increases by \$299 million over the period (2016/17 to 2019/20).

This big increase in equity over the period is coming from the large insurance proceeds ex CentrePort's prospective comprehensive income results.

There are \$42 million of new equity injections from the Regional Council into WRCH to fund capital expenditures in GWRL.

Performance targets

	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)
Net profit before tax	77,319	90,647	85,169
Net profit after tax	78,082	91,800	87,829
Earnings before interest, tax and depreciation.	104,993	120,958	117,636
Return on total assets	11.9%	12.0%	10.2%
Return on shareholder equity	17.0%	17.2%	14.4%
Shareholders equity to total assets	66.2%	67.9%	71.3%
Dividends	Nil	Nil	Nil

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 non- controlling interest, utilising the average of the opening and closing balance.
- (b) Total assets are defined as all of the recorded tangible and intangible assets of the Group at their average value, as determined in the Group's statement of accounting policies in the most recent financial statements.
- (c) Return on Shareholders equity is calculated using net profit after tax while return on total assets is calculated using earnings before interest and tax.

Comment

The financial performance and ratios of return on total assets and return on Shareholder's equity are being impacted by the insurance proceeds from the 14 November Kaikoura earthquakes.

8.5 Statement of Accounting Policies

Accounting Policies

The financial statements are presented in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002 and New Zealand Generally Accepted Accounting Practices (NZ GAAP).

These prospective financial statements are presented in accordance with Tier 1

PBE Accounting Standards, and comply with PBE Standards.

The detailed accounting policies are available in our most recent annual report as published on Greater Wellington Regional Council website.

Refer-<http://www.gw.govt.nz/assets/About-GW-the-region/Our-Role/WRC-Holdings-accounts-YE-30.6.16.pdf>.

8.6 Assumptions in preparing the prospective financial statements

The prospective financial statements information contained in this SOI is based on assumptions that WRC Holding Group could reasonably expect to occur in the future based on information that was current at the time this SOI was prepared. Actual results are likely to vary from the information presented and variations could be material.

- The debt interest rate assumption for the WRC Holdings excluding CentrePort Limited is 2.8% for the 2017/18 year and 2.80% and 3.0% for the next two years respectively after all margin costs. Interest rate hedging is put in place from time to time (as all debt borrowed is at floating rate) to protect against interest rate variability. However, the borrowing margin is subject to market movements.
- There will be no changes to key legislation affecting the Group activities.
- Asset lives are in accordance with the Group's Accounting Policies.

CentrePort - Port forecasts

- Estimated business interruption income has been included throughout period of indemnity (36 months to 13 November 2019) covering loss of gross profit in the container sector.
- Insurance recovery monies for material damage received over the course of the forecast period, are an estimate only (note this is subject to the completion of detailed engineering assessments and insurance claims assessments which have not yet been completed).
- Estimated impairment of assets and land included in FY17, \$55 million and \$50 million respectively based on preliminary discussions with Port engineers.
- Earthquake repair costs of \$170 million spread over the 3 years to 30 June 2020 with further earthquake repair expenditure of \$170 million extending beyond the SOI period.

CentrePort - Property forecasts

- Estimated loss of rents income for the estimated period of tenant vacancy of the investment property. Loss of rents cover is for a 3 year indemnity period.
- Insurance recovery monies for material damages received in FY17 and FY18 estimates only for CPPL.
- Estimated impairment of assets included in FY17 matching estimated repair costs.
- Estimated changes in fair values related to investments properties are \$2.5 million for CPPL and \$35.8 million for the SPV properties respectively based on a preliminary indication. This will be reviewed at 30 June 2017.
- Insurance recoveries are estimated to match cost of earthquake repairs for the SPV properties. The timing of the completion of the repairs is uncertain for some properties and allowance has been made for this to extend beyond the indemnity period.

8.7 Issues Facing the Group

CentrePort Limited

CentrePort's operations and infrastructure were both significantly impacted by the 14 November earthquakes.

CentrePort has commenced a repair programme, which is funded out of insurance proceeds. The immediate priority is on remediation and pragmatic steps to further restore operational capability, with a focus on restoring the container operations, which were most impacted by the earthquake.

The Harbour Quays investment properties were also damaged in the earthquake and CentrePort continues to work with its engineers and insurance assessors to determine the extent of the damage.

The longer term plan to repair or reinstate the Port infrastructure, damage to the land, and investment properties will commence once damage assessment reports are completed. The long term recovery plan and strategy will be widely consulted on with stakeholders.

Greater Wellington Rail Limited

The current issues facing GWRL are:

Monitoring Transdev and Hyundai-Rotem's delivery of Rail Partnering Contract, with a focus on maintaining the condition of the assets through the term of the contract;

Supporting Transdev and Hyundai-Rotem through the commencement of the first of the large Matangi Heavy Maintenance checks;

Disposing of the Ganz Mavag fleet;

Continuing the rail fixed infrastructure improvement programme and managing the seismic risk identified in specific pedestrian bridges and subways;

Managing the continued demand for additional capacity at key park and ride sites within limited budgets and land supply;

Review Waterloo Station structure, and the options going forward, prior to significantly investing in the foreseeable maintenance repairs necessary to this structure.

Port Investments Limited

PIL is an investment company for the Regional Council and holds the shares in CentrePort Ltd. PIL has a \$44,000,000 loan from WRC Holdings which, in the past, has been serviced by CentrePort dividends.

PIL's forecasted equity has therefore been adversely affected as a result of no planned CentrePort dividend over the planning period used to service the \$44 million loan.

9. 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 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.

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). The target dividend pay-out 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 Holdings Group the expectation is that the dividends paid will be the maximum practical amount where appropriate. It is expected to be 100% of after tax earnings, excluding unrealised fair value adjustments.

10. Information to be Reported

The Group will maintain regular reporting to the Shareholder 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 summary of achievements measured against the performance targets
 - the dividend.
- (b) Report to the Shareholder quarterly including the December half year result.
- (c) Provide further financial information that meets Shareholder expectations (format and timetable to be agreed) on a regular basis.

11. Procedures for the Purchase and Acquisition of Shares

The Boards of WRC Holdings, PIL and GWRL will obtain the prior approval of the 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. NB: CentrePort is governed by a separate constitution.

GWRL subscribes for equity from WRCHL to cover capital expenditures, WRCHL in turn subscribes for equity from the Regional Council.

Section 60 of the Local Government Act 2002 requires that all decisions relating to the operation of the companies must be made in accordance with its SOI and its constitution.

12. Compensation

The non-Council Directors of WRC Holdings will receive remuneration and travel expenses as determined by Council from time to time.

Council Directors of WRCHL, PIL, and GWRL, will receive travelling expenses based on the rates applicable to members of the Council, and may receive remuneration in accordance with Council directives from time to time.

The WRCH Group of companies will seek compensation by agreement from the Regional Council for:

- (a) Interest and financial costs relating to the provision of any inter-company loans, other financing arrangements and current account balances that may accrue.
- (b) 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.

13. Value of Shareholder's Investment

The valuation of investments will be undertaken as may be required from time to time by the Directors or Shareholders.