

WRC Holdings Limited Group

Statement of Intent

For the years ended 30 June 2019, 2020 and 2021

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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;
- 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.

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.

- e) For CentrePort via Port Investments Limited to ensure Centreport:
- 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.
 - delivers competitive financial returns compared to industry benchmarks (port and comparable sectors).
 - adopts policies that prudently manage risk and protect the investment of stakeholders.
 - 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.
 - 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.
 - Adopt policies that prudently manage risks and protect the investment of its shareholders.
 - 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.
 - Conduct its affairs in accordance with sound business practice.
 - 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

Assets

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
- 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.

GWRL has a \$78 million capex programme over the next 3 years.

Strategic Context:

- a) To keep Wellington city and the Greater Wellington region moving, we need a public transport network that can carry more people to more places, every day of the week.

- b) Residents and visitors to the region currently make 38 million journeys a year on Metlink buses, trains and ferries, and with our growing population, this is set to increase to 42 million journeys by 2021.
- c) GWRC are making extensive improvements to the Metlink public transport network to deliver more frequent and reliable services to seamlessly connect the communities across our region to the places where they live, work and play.
- d) GWRC are working towards a world standard, low-emission public transport network to take the region into the future. We want to become a smarter, cleaner region, by encouraging more people to travel by bus, train and ferry, especially at peak times.
- e) GWRC have already made improvements to the Metlink rail service, which included a new fleet of modern electric trains, new stations, more park & rides, improved punctuality and better disruption and delay information, as well as extending the electric network up to Waikanae.
- f) From mid-2018, GWRC are making changes to bus and rail services across the region for including an upgraded bus fleet and improved connections between services. Wellington city will have a new bus network to support the city's growing transport needs.
- g) The role of Greater Wellington Rail Limited is to manage, maintain, renew and provide the rolling stock, and rail station infrastructure assets to enable delivery of comfortable, reliable and punctual rail services to the residents of, and visitors to the Greater Wellington Region.

The rail services provide >36,000 daily peak journeys to and from the Wellington CBD (Equivalent to 44-50% mode share from Hutt Valley, Kapiti, Porirua into the CBD) and around 13.5m passenger journeys per annum

- h) On behalf of fare payers, ratepayers and taxpayers we are guardians of public assets with a replacement cost of approximately \$0.6b.
- i) The rail services provided by our assets , support and promote Greater Wellington Regional Council's Strategic Community Outcomes:

Strong Economy - by enhancing the efficient movement of people and goods within the region

Connected Community – by providing a mass transit system that moves people efficiently and relieves congestion from our roads at peak times a by providing an essential service for people for whom, whether by choice or circumstance, private vehicle travel is not an option

Healthy Environment – by supporting the reduction of vehicle emissions from private vehicles and PT Vehicles

- j) Greater Wellington Rail Limited is committed to enhancing our assets within the rail network which is a critical part of our regions transport system. Rail will play a vital role in ensuring the region's economic prosperity and meeting our transport needs are met, now and in the future.

Work plan 2018/19 year:

Key Activities & Initiatives	
Maintenance	Deliver train maintenance services, within approved budgets, through an operations and maintenance contract, while ensuring that train condition and performance is maintained throughout the assets life.
	Deliver rail station infrastructure cleaning and maintenance, within approved budgets, through various contracts ensuring asset condition does not deteriorate.
Renewal	Deliver rolling stock heavy maintenance renewals, within approved budgets, through an operations and maintenance contract, while ensuring that train availability and reliability targets are met.
	Deliver rail infrastructure asset renewals and like-for-like replacement programme, to improve overall asset condition and performance, in accordance with the asset investment priority framework
Security	Expand the fibre optic network, along the Johnsonville Line, to enable the future installation of CCTV cameras, Station Public Address Systems, and Duress Points , similar to what is installed at most stations on the network.
Park & Ride	Purchase land adjacent to Waterloo Station, and to develop the land at Porirua and Paremata and other localities for increased Park & Ride capacity. Expand Park & Ride capacity, in accordance with the Park and Ride Strategy Framework (currently being developed)
Seismic Strengthening	Undertake seismic strengthening works on a number of earthquake prone pedestrian foot bridges and subways, in accordance with the agreed risk profile
Signage	Continue the installation programme of Metlink standard signage. Resolve issues with insufficient information space within the standard design, and improve the signage model used to communicate with customers during periods of bus replacement.
Bicycle Storage	Improve the provision of bicycle storage facilities at outer stations to mitigate growing conflict on services between peak customer capacity and cycle storage space.
Wellington Station Passenger Information System	Renew the Passenger Information system (audio and visual) at Wellington Railway Station

Ganz Mavag	Complete disposal of the Ganz Mavag units
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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 (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.

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		
	2018/19	2019/20	2020/21
Dividend distribution \$ 000s	1,461	2,035	2,631
Dividend distribution %	100%	100%	100%
Return on equity (1)	0.6%	0.7%	0.9%
Return on assets (2)	0.9%	1.1%	1.3%
Shareholders funds to total assets	85.2%	86.0%	86.9%

(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

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.

Environment performance targets - Group

Operate in an environmentally and sustainable manner and realise opportunities to be more sustainable

Minimise the impact of any of the Group's activities on the environment

Develop a culture of awareness of environmental issues within the Group

Ensure regulatory compliance

Safety & Security performance targets – Group

To provide a safe and health workplace – zero harm

Compliance with H&S standards and shipping and rail codes/legislation

Social performance targets – Group

To help sustain the economy of the region, collaboration with partners

To participate in development, cultural and community activities within the region which the group operates

5.2 Greater Wellington Rail Limited

Operational performance targets

GWRL is accountable for delivery against measures and targets reviewed annually under this SOI, parallel measures listed in GWRC's Public Transport Asset Management Plan (AMP), and Greater Wellington Regional Councils 2018-2028 Long-term Plan (LTP).

Level of Service	Current	2018/19 Target	2019/20 Target	2020/21 Target
CUSTOMER SATISFACTION WITH RAIL ASSETS				
Percentage of passengers who are satisfied with their current trip	91.4%	≥92%	≥92%	≥93%
Percentage of customers who are satisfied with the cleanliness of the trains	94%	≥93%	≥93%	≥93%
Percentage of passengers who are satisfied with overall station	93%	≥91%	≥92%	≥92%
Percentage of passengers who are satisfied with the cleanliness of the station	86%	≥80%	≥80%	≥80%
Percentage of customers who feel safe while using the station facility	89%	≥89%	≥90%	≥91%
Percentage of passengers who are satisfied with the information at the station	89%	≥89%	≥90%	≥91%
ROLLING STOCK - ASSET MANAGEMENT				
Matangi - Mean distance between failure	44,000km	≥40,000km	≥40,000km	≥40,000km
Carriage - Mean distance between failure	97,000km	≥80,000km	≥80,000km	≥80,000km

Level of Service	Current	2018/19 Target	2019/20 Target	2020/21 Target
RAIL FIXED ASSET - ASSET MANAGEMENT				
Percentage of pedestrian bridges and subways which meet at least 67% of NBS earthquake rating	27%	36%	45%	55%
Percentage of stations with CCTV coverage	79%	81%	85%	98%
Average condition grade of:				
Station buildings and shelters:	2.4	≤2.5	≤2.5	≤2.5
Structures (pedestrian subways & bridges):	2.5	≤2.5	≤2.5	≤2.5
Park & Ride:	2.4	≤2.5	≤2.5	≤2.5
Percentage of assets in condition grade 4 (Poor) or worse				
Station buildings and shelters:	10%	8%	6%	≤5%
Structures (pedestrian subways & bridges):	12%	10%	8%	6%
Park & Ride:	29%	25%	20%	15%

Financial performance targets

- a) Operating costs, and capital expenditure are maintained overall within budget

	2018/19 Target	2019/20 Target	2020/21 Target
Operating expenditure	\$37.7m	\$39.9m	\$40.9
Capital Expenditure	\$30.7m	\$20.7m	\$26.6
Shareholder's funds to total assets	83%	85%	86%

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		
	2018/19	2019/20	2020/21
Dividend distribution \$ 000s	1,644	2,227	2,829
Dividend distribution %	100%	100%	100%
Return on equity (1)	62.0%	84.0%	106.8%
Return on assets (2)	6.3%	7.7%	9.2%
Shareholders funds to total assets	5.4%	5.4%	5.3%

- (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 – 2021 SOI.

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

Measure		Outlook	Forecast	Forecast	Forecast
		FY18	FY19	FY20	FY21
Group EBITDA excl. JV & Associate Earnings ('Group EBITDA')	\$m	22.6	24.2	24.3	26.1
Port EBITDA excl. JV & Associate Earnings ('Port EBITDA')	\$m	23.2	24.1	24.0	25.8
Group EBIT plus JV & Associate Earnings ('Group EBIT')	\$m	20.8	22.0	17.7	15.0
Port EBIT plus JV & Associate Earnings ('Port EBIT')	\$m	17.8	16.6	14.7	15.3
Property EBIT plus JV & Associate Earnings ('Property EBIT')	\$m	2.9	5.3	3.0	(0.3)
Underlying Net Profit Before Tax	\$m	18.7	21.9	18.0	13.3
Underlying Net Profit After Tax ('Underlying NPAT')	\$m	14.2	17.1	14.1	9.8
Dividend	\$m	2.0	3.0	4.0	5.0
Shareholders' Funds ('Equity') or Net Assets	\$m	209.2	303.3	398.0	402.8
Number of issued shares	000	23,425	23,425	23,425	23,425
Group EBIT Return on Assets	%	10.0%	8.5%	5.2%	3.4%
Port EBIT Return on Port Assets	%	13.2%	9.4%	5.8%	4.3%
Property EBIT Return on Property Assets	%	4.0%	6.6%	3.5%	-0.4%
Underlying NPAT Return on Group Equity	%	7.0%	6.7%	4.0%	2.4%
Dividend Distribution as a % of Underlying NPAT	%	14.1%	17.6%	28.3%	51.2%
Underlying earnings (NPAT) per share	\$	0.61	0.73	0.60	0.42
Dividend per share	\$	0.09	0.13	0.17	0.21
Net Asset backing per share	\$	8.93	12.95	16.99	17.19

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, FY19 means financial year ended 30 June 2019.

6.2 Financial Health measures

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

Financial Health	Target	Outlook FY18	Forecast FY19	Forecast FY20	Forecast FY21
Current Assets (\$m)	n/a	30.0	40.8	49.4	9.6
Current Liabilities (\$m)	n/a	20.3	13.2	11.6	12.1
Total Assets (\$m)	n/a	249.3	338.5	430.4	519.8
Shareholders Funds - Equity (\$m)	n/a	209.2	303.3	398.0	402.8
Term Borrowings (\$m)	n/a	0.0	0.0	(0.0)	85.2
Debt (\$m)	n/a	0.0	0.0	(0.0)	85.2
Equity Ratio	> 45%	83.9%	89.6%	92.5%	77.5%
Gearing	< 50%	0.0%	0.0%	0.0%	17.5%
Interest cover	> 2.5 times	12.4 times	452.3 times	n/a	14.8 times
Solvency Ratio	> 0.6	1.48	3.08	4.25	0.79

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 FY19-21 are:

Objective	Performance measure	Performance target		
		FY19	FY20	FY21
Year on year improvement towards zero harm	Lost Time Injury Frequency (per 200,000 hours worked)	≤ 3.5	≤ 3.5	≤ 3.2
	Lost Time Injury Severity (per 200,000 hours worked)	≤ 10	≤ 10	≤ 8
	bSafe Reports (incident and near miss reports)	> 900	> 900	> 1,000
	Site Inspections	> 120	> 120	> 120
	Safety Interactions	> 120	> 120	> 120
	Random Drug and Alcohol Testing (as a percentage of total employees)	> 40%	> 40%	> 40%
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
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6.4 Environmental

Specific areas of focus for Environmental management of the Port over FY19-21 are:

Objective	Performance measure	Performance target		
		FY19	FY20	FY21
Ensure regulatory compliance	Compliance breaches	Zero	Zero	Zero
Minimise risk to the environment	System: consistency with ISO14001	Audit and completion of first stage certification 1	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 15% decrease from baseline	Minimum 20% decrease from baseline	Minimum 25% decrease from baseline
	Complaints: number of complaints from external stakeholders about environmental performance	Zero	Zero	Zero
Improve stakeholder relations	Environmental Consultative Committee meeting frequency	At least 3 per annum	At least 3 per annum	At least 3 per annum
	Iwi engagement	Pre lodgment consultation undertaken for 100% of resource consent applications	Pre lodgment consultation undertaken for 100% of resource consent applications	Pre lodgment consultation undertaken for 100% of resource consent applications
	Transparency	Performance against targets	Performance against targets	Performance against targets

		reported in Annual Report	reported in Annual Report	reported in Annual Report
Develop a culture of awareness and responsibility	Board sub-committee (Health Safety and Environment) meeting frequency	At least 4 per annum	At least 4 per annum	At least 4 per annum
	Internal 'sustainability subcommittee' meeting frequency	At least 3 per annum	At least 3 per annum	At least 3 per annum

6.5 Regeneration

Objective	Performance measure	Performance target		
		<i>FY19</i>	<i>FY20</i>	<i>FY21</i>
Planning supports the appropriate regeneration and growth of the port	Planning completed on time and with input from key stakeholders	Medium Term Operating Plan finalised in full by Dec 2018 Port Regeneration Plan developed by Jun 2019	Port Regeneration Plan updated	Port Regeneration Plan updated
Infrastructure restoration and challenge	Demolition programme on target as contained in Medium Term Operating Plan	On target	On target	On target
	Natural hazard resilience programme developed	Performance standards determined Sea level rise adaptation strategy developed Results fed into Port Regeneration Plan	N/A	N/A
	Restoration of buildings on target as contained in Medium Term Operating Plan	On target	On target	On target
	Traffic and pedestrian management solutions on target	On target	On target	On target

	as contained in Medium Term Operating Plan			
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6.6 Social performance targets

Specific areas of focus for our Social activities over FY19-21 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 by:
 - Gaining insights into stakeholders’ expertise and experience to improve decision making; and
 - Provision of higher quality input as a result of stakeholders having a more thorough understanding of Centreport operations and objectives.
- b) Supporting the regional community by investing in community sponsorship and engaging in community activities to enhance relationships resulting in a positive authorising environment.
- c) To meet regularly with representative community groups to further develop enduring relationships for the benefit of all parties , and to inform these stakeholders and manage expectations.

6.7 General performance targets

Other specific areas of focus over FY19-21 are:

- a) The company will, in consultation with the shareholders, continue to develop performance targets in the financial, environmental, social and regeneration 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. This will include updates to CentrePort’s strategy in relation to its property portfolio.

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 will take the opportunity to review its strategy and structure following Council completing its Long Term Plan and indications of its future aims in respect of WRC Holdings and its subsidiary companies. WRC Holdings will also standardise its governance systems and processes to align with good practice.

8. Financial Information

8.1 Prospective statement of comprehensive income

Year ended 30 June	2018/19	2019/20	2020/21
\$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
<u>Prospective statement of comprehensive income</u>			
Dividends & Equity Earnings	5,175	2,741	(642)
Grant from GWRC - Operating	11,870	11,747	11,992
Rental income	8,694	8,789	8,889
Interest income	59	359	110
Other revenue incl BI & loss of rents	72,669	74,717	80,038
Total revenue	98,467	98,353	100,387
Interest expense	1,420	1,574	3,502
Depreciation	26,737	30,939	32,649
Other expenditure	69,445	71,350	75,281
Earthquake related items	(80,063)	(84,569)	-
Total expenditure	17,539	19,294	111,433
Surplus/(deficit) before tax	80,928	79,059	(11,046)
Taxation expense (credit)	(634)	(2,212)	(2,766)
Total comprehensive income (NPAT)	81,562	81,271	(8,280)

Total comprehensive applicable to non-controlling interest	<u>22,419</u>	<u>22,775</u>	<u>2,255</u>
Total comprehensive income applicable to parent	<u>59,143</u>	<u>58,496</u>	<u>(10,535)</u>

8.2 Prospective statement of financial position

As at 30 June	2018/19	2019/20	2020/21
\$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
<u>Prospective statement of financial position</u>			
Opening equity	512,733	622,659	721,405
Opening equity non controlling interests	(48,271)	(69,767)	(91,388)
New equity	30,748	20,660	26,651
Total comprehensive income applicable to parent	59,143	58,499	(10,531)
	554,353	632,052	646,138
Dividends distributed	(1,461)	(2,035)	(2,631)
Closing Equity Non-controlling interest	69,767	91,388	92,258
Closing equity	622,659	721,405	735,765
Equity applicable to parent	552,892	630,017	643,507
Non controlling interest	69,767	91,388	92,258
Closing equity	622,659	721,405	735,765
Current assets	39,133	47,856	21,774
Non current assets	642,329	722,431	857,211
Investments	96,262	98,503	97,361
Total assets	777,724	868,790	976,346
Current liabilities	20,815	20,370	22,011
Borrowings	44,050	44,050	142,853
Non current liabilities	90,199	82,965	75,718
Total liabilities	155,064	147,385	240,582
Net assets	622,660	721,406	735,764

As at 30 June	2018/19	2019/20	2020/21
\$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
<u>Prospective statement of changes in equity</u>			
Opening equity	512,733	622,659	721,405
Shares to be issued during the year	30,748	20,660	26,651
Total comprehensive income for the year	81,562	81,274	(8,276)
Dividend to be paid - Equity holders	(1,461)	(2,035)	(2,631)
Dividend to be paid - Non controlling Interests	(923)	(1,154)	(1,385)
Closing Equity	622,659	721,405	735,765
Total comprehensive income attributed to:			
Equity holders - Parent	59,143	58,499	(10,531)
Non - controlling interest	22,419	22,775	2,255
Total comprehensive income for the year	81,562	81,274	(8,276)

8.3 Prospective statement of cash flows

Year ended 30 June
\$000

2018/19 2019/20 2020/21
WRCH GROUP WRCH GROUP WRCH GROUP

Prospective statement of cash flow

Cash flows from operations

Receipts from operations Incl BI proceeds	124,053	114,806	113,774
Interest received	1,666	521	320
Dividends received	500	500	501
Payments to suppliers/employees	(84,271)	(82,123)	(88,370)
Taxes paid	(2,590)	(5,863)	(5,480)
Interest paid	(2,876)	(1,590)	(3,501)
Net cash from operating activities	15,483	16,251	17,243

Cash flows from investing activities

Purchase of Fixed Assets - Rail	(30,748)	(20,660)	(26,651)
Development/EQ rebuild - Port	(81,749)	(93,348)	(140,778)
Material Damage insurance proceeds	165,439	97,708	3,538
Net cash from investing activities	(25,355)	(26,639)	(167,429)

Cash flows from financing activities

Borrowings	-	-	98,803
Dividends paid	(1,584)	(2,999)	(3,804)
Issue of shares	30,748	20,660	26,651
Current Account movement	(730)	(120)	(142)
Intercompany trading a/c	-	-	-
Net cash from financing activities	28,435	17,542	121,509
Net increase/(decrease) in cash & cash eqvts	18,562	7,154	(28,677)
Cash & cash equivalents at beginning of the year	4,011	22,573	29,728
Cash and cash equivalents at year end	22,573	29,728	1,051

Financial Statements commentary

The statement of comprehensive income (2018-2020) is still significantly influenced by the impact of the November 2016 earthquakes at Centreport, the insurance proceeds and related earthquake accounting entries.

The Dividend & equity earnings is showing a decline in 2019/20 and this stems from the loss Business Interruption (BI) rental support.

The Other revenue includes CentrePort's Port revenue and BI support for that revenue with BI declining and being replaced by growth of Port revenue over time.

Interest expense increases in 2020/21 as CentrePort returns to having debt, after two years of no debt due to receipt of Insurance proceeds ahead the capital expenditure rebuild.

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

The other expenditure increase is driven mainly by CentrePort and relates to the Port revenue growth and higher levels of support expenditure related to the port regeneration and higher Insurance premiums.

The Earthquake related items relate to the forecasted material damage proceeds from insurers, after an allowance for demolition costs.

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 \$227million over the period (2017/18 to 2020/21).

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

There are \$69 million of new equity injections from the Regional Council into WRCH to fund capital expenditures in GWRL.

Performance targets

	2018/19 (\$000)	2019/20 (\$000)	2020/21 (\$000)
Net profit before tax	80,928	79,062	(11,042)
Net profit after tax	81,562	81,274	(8,276)
Earnings before interest, tax and depreciation.	109,084	111,575	25,110
Return on total assets	11.3%	9.8%	-0.8%
Return on shareholder equity	16.0%	13.7%	-1.3%
Shareholders equity to total assets	70.0%	71.8%	69.0%
Dividends	1,461	2,035	2,631

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.

8.4 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 to:

8.5 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 3.05% for the 2018/19 year and 3.55% and 3.95% 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

- Port forecast operational performance is based on continuing growth in Port cargoes especially container volumes and log exchanges.
- Insurance recoveries for both business interruption and material damage are subject to significant estimation:
- Business interruption income is assumed to cover a loss of gross profit in the container sector of \$25m in total across the indemnity period (36 months to 13 November 2019).
- Insurance recoveries for material damage are subject to the completion of detailed engineering assessments and insurance claims assessments, and are estimated at \$375m.
- Similarly, earthquake rebuild costs are subject to significant uncertainty, and are estimated at \$343.5m spread over the 3 years to 30 June 2021 with further expenditure to follow.

CentrePort - Property forecasts

- Insurance recoveries for loss of rents income have been estimated for the 3 year indemnity period (or the period of estimated completion of repairs if earlier). For remaining properties, earthquake repairs are expected to be completed by FY21 although there is much uncertainty over BNZ.

8.6 Issues Facing the Group

CentrePort Limited

CentrePort's container operations and infrastructure were significantly impacted by the 14 November 2016 Kaikoura earthquake.

CentrePort's container operations were restored in September 2017 following completion of the temporary works to secure the ship-to-shore cranes. Shipping services have now returned with cargo exchanges increasing to near pre earthquake levels.

CentrePort has commenced a repair programme, which is funded out of insurance proceeds.

The Harbour Quays investment properties were also damaged in the earthquake. The Statistics NZ building has been demolished. NZ Customs returned to Customhouse in December 2017. CentrePort is continuing to work with its engineers and insurance assessors to determine the extent of the damage to the BNZ building.

The longer term plan to repair or reinstate the Port infrastructure, damage to the land, and investment properties is due to commence in 2018. 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 delivery of Rail Partnering Contract, with a focus on maintaining the condition of the assets through the term of the contract;

Supporting Transdev with their performance management of Hyundai-Rotem through the commencement of large Matangi Heavy Maintenance checks;

Completing the disposal of the Ganz Mavag fleet which started in June 2018;

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

Actively managing the public use of key park and ride sites;

Reviewing Waterloo Station structural options and redevelopment;

Managing the lifecycle of rolling stock assets utilised on the Wairarapa Line.

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 equity has been adversely affected as a result of lower than planned CentrePort dividend in 2016/17 as a result of the Seddon Earthquakes. This is now forecast to return to pre-earthquake level with the resumption of CentrePort dividends.

Dividends are forecast by CentrePort to return, but to a more modest level than in previous years.

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. The level of equity is the best proxy.