greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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WRC Holdings Group final Statement of Intent for the 3 years 2013/14 to 2015/16.

1. Purpose

To receive the final Statement of Intent (SOI) of WRC Holdings Limited (WRCH).

2. The decision-making process and significance

No decision is being sought in this report.

3. Background

The Council considered the draft SOI for WRCH at its meeting on 20 March 2013after the Chair had received a copy in late February. The Council did not request any changes for the WRC Holdings Board.

The final SOI was presented to the WRC Holdings Board on 20 June 2013. Due to the timing of the Council agenda closing, changes from WRC Holdings were not available at the time of writing this report. Therefore, any changes requested by the WRC Holdings Board will be tabled at the Council Meeting on 26 June 2013.

The final SOI has been updated with CentrePort's Statement of Corporate Intent, financial forecasts and performance measures.

4. Changes from the draft SOI

The changes can be divided into two categories, the words and the numbers.

4.1 Changes to the words

The following notable alterations have been made to the SOI.

Activities of the Group – Section 3.2

The section on GWRL has been updated and amended to reflect the new budget of $170 million for 35 new Matangi trains and upgrade to the existing Matangi.

CentrePort performance targets – Section 5

These have been updated to reflect changes in CentrePort's performance targets. The changes are noted under CentrePort's Statement of Corporate Intent and flow directly into this SOI.

Financial commentary – Section 7

This has been updated to reflect the changes to the financial statements emanating from changes to the numbers detailed below.

Issues facing the Group – Section 8.0

The section on CentrePort has now been inserted.

Issues facing the Group – Section 8.0

The section on Pringle House has been updated to reflect current conditions.

Assumptions in preparing the prospective financial statements- Section 7.7

These have been updated to reflect changes to Pringle House discussed below and the sale of the Ganz Mavag and their respective accounting treatments.

4.2 Changes to the numbers

4.2.1 Pringle House Limited

The revised financials make the following assumption:

- Rental from the Regional Council will cease in December 2013 (draft June 2013).
- No dividend is paid or declared for 2012/13 year (draft plan paid dividend).
- Pringle House will be sold in 2014/15 (one year later than draft plan).
- Pringle House is sold at a price that provides no equity left in PHL.

4.2.2 Port Investments Limited

The gross dividend from CentrePort has been increased by $450,000 for both 2013/14 and 2014/15 years from $4.5 million to $4.950 million and increased in the 2015/16 year by $800,000 to $5.8 million. The impact on PIL is a

$346,000 increase in dividend for each of the two years and an increase of $616,000 in the 2015/16 year.

There is no dividend declared in 2012/13; it is declared and paid out in the 2013/14, and follows a similar pattern going forward, with the previous year's surplus paid out as dividend in the following year.

4.2.3 CentrePort Limited

The most notable item is their increased dividend in all years.

4.2.4 Greater Wellington Rail Limited

The fixed asset spend has been updated to reflect the currently planned project timing and in particular the purchase of the next 35 Matangi units and the retro-fitting of the existing units.

The plan assumes the Ganz Mavag units will be sold by 30 June 2013 and have been written down substantially and not depreciated going forward. This has consequently reduced the depreciation forecast.

All future capital expenditure purchases going forward are now funded 100% by way of increase in equity, rather than a mix of equity and capital grant in the draft plan.

GWRL costs continue to be funded, with the exception of depreciation, by the Regional Council and rentals from the rolling stock from KiwiRail. Thus GWRL makes a loss each year which equates to the level of depreciation and any adjustments for deferred tax.

This loss from the depreciation is impacting the Group's results, as the operating grant for capital expenditure due, but in an adverse way.

4.2.5 WRC Holdings Limited

WRC Holdings as a holding company just records what occurs in its subsidiary companies. Notable entries are a $3.8 million write down of its investment in PHL in 2014/15.

There is no dividend received from PHL reflecting the assumption of retaining the dividend to fund operating expenses.

Shareholder's funds increase as Equity is drawn from the Regional Council to cover the purchase of capital items in GWRL.

Performance Targets

	2013/14 ($000)	2014/15 ($000)	2015/16 ($000)
Surplus (loss)before tax - Final	1,060	(4,107)	(729)
Surplus (loss) before tax – Draft	*(880)*	*21,317*	*49,749*
Surplus (loss) after tax- Final	1,500	(2,776)	253
Surplus (loss) after tax – Draft	*(2,291)*	*15,424*	*35,773*
Earnings before interest, tax & depn- Final	30,942	27,846	33,498
Earnings before interest, tax & depn – Draft	*38,570*	*60,660*	*90,963*
Return on total assets – Final	1.6%	1.0%	1.3%
Return on total assets- Draft	*1.4%*	*4.3%*	*7.4%*
Return on shareholder equity - Final	(0.4%)	(1.5%)	(0.7%)
Return on shareholder equity – Draft	*(1.4%)*	*3.1%*	*7.3%*
Shareholders equity to total assets	50.8%	52.1%	56.4%
Shareholders equity to total assets	*51.9%*	*52.4%*	*55.3%*
Dividends – Final	2,329	1,841	2,179
Dividends- Draft	*1,489*	*1,739*	*1,681*

As expected, the above numbers are heavily influenced by the loss after tax emanating from GWRL, i.e. $9.3 million, $10.4 million and $11.8 million over the 3 years respectively. This relates to GWRL depreciation expense which is not funded by the Regional Council, but acts to reduce the equity in GWRL over time commensurate with the reduced value of the assets in GWRL.

The dividends are the only numbers not affected by the impact of GWRL.

Overall the dividends have increased from the draft SOI. The increase is predominately due to an increase in dividend from CentrePort.

You are referred to the individual company financial performance targets contained in **Attachment 1**, Section 4 of the SOI, which show the detailed financial performance targets behind these consolidated numbers.

5. Recommendations

That the Council:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*

Report prepared by:

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Treasurer and Acting Chief Financial Officer

Attachment 1: WRC Holdings Group Statement of Intent