



WRC Holdings Group Statement of Intent

(Covering the years to 30 June 2014, 2015 and 2016)

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1. Scope of Statement of Intent (SOI)

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

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

WRC Holdings is an entity established under the Local Government Act 2002 (LGA). WRC Holdings and its wholly owned subsidiaries are Council Controlled Trading Organisations (CCTO's), and Council Controlled Organisations (CCO's) 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.

2. Reasons for the WRC Holdings Group

- Appropriate separation of management and governance
- To impose commercial discipline on the Group's activities and produce an appropriate return to shareholders and ensuring appropriate debt/equity ratio.
- To separate Greater Wellington'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.

3. Objectives and Activities of the Group

3.1 Objectives

The primary objectives of the Group shall be to:

- a) Support Greater Wellington's strategic vision; operate successful, sustainable and responsible businesses.
- b) Manage its assets prudently.
- c) Where appropriate, provide a commercial return to shareholders.
- d) Adopt policies that prudently manage risks and protect the investment of its shareholders.

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.

3.2 Activities of the Group

WRC Holdings Limited

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

Effectively manages any other investments held by the Group in order to maximise the commercial value to the shareholders and to protect the shareholder's investment.

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

Pringle House Limited

It owns and operates the Regional Council Centre at 142-146 Wakefield Street, Wellington. The building has been leased out on commercial terms to Greater Wellington and third parties.

The management of the building is undertaken by Greater Wellington's property consultants, Jigsaw Property Ltd.

The building consists of 6,545 square metres over 9 floors with 88 % being leased to Greater Wellington and with the balance currently not earning income due to the inability to lease out the space for commercial gain.

The prime tenant, Greater Wellington Regional Council, has decided to vacate the building due to its earthquake prone status and this SOI assumes the building will be placed on the market and sold by 30 June 2014. However a final decision on what will be done with the vacated building has yet to be made.

Greater Wellington Rail Limited

GWRL owns Greater Wellington'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
- 48 - 2 Car Matangi units
- 43 - 2 Car Ganz Mavag units

Infrastructure Assets:

- Thorndon electric multiple unit (EMU) depot and EMU train wash
- Metro wheel lathe and building
- 48 – Railway stations including 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.

The bulk of the above infrastructure assets were taken over from KiwiRail in June 2011 for \$1 consideration with the balance of \$5.3 million being transferred over from Greater Wellington to GWRL in June 2012.

Greater Wellington Rail Limited is responsible for all aspects of asset management and stewardship, implemented through a management contract with Greater Wellington Regional Council. An asset management plan has been developed 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 Greater Wellington Regional Council directly and is delivered via separate maintenance and operating contracts with KiwiRail.

Greater Wellington has budgeted expenditure of \$142 million over the next three years to replace the Ganz Mavag units with a second tranche of Matangi units. The final business case has not been completed at the time of writing this SOI and these numbers are the initial estimates only.

These new Matangi units are expected to be introduced into service over the period January – December 2015. 15 Ganz Mavag units have been withdrawn from service and are awaiting disposal action. The remaining 28 Ganz Mavag units are being retained in operational service until the introduction of the second tranche of Matangi Trains.

Other planned expenditure on rail assets includes \$3.5 million per annum for renewal work and like for like replacement of rail related infrastructure plus \$540,000 for the refurbishment of the SE carriages in order to bring them to a standard where they can be operated on the Wairarapa line. It is also planned to spend \$1.5 million on security enhancements to protect infrastructure and rolling stock assets from vandalism and tagging plus lower existing insurance premiums.

Port Investments Limited

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

The major activities of CentrePort, who produce their own Statement of Corporate 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 through the board of PIL.

4. Financial and Operational Performance Targets

4.1.1 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. The performance targets for CentrePort are included as information only as CentrePort is part of Port Investments Limited.

4.1.2 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 operation and financial position of the company.

Financial performance targets

| | WRC Holdings Limited | | |
|-------------------------------|----------------------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 |
| Dividend distribution \$ 000s | 1,489 | 1,739 | 1,681 |
| Dividend distribution % | 100% | 100% | 100% |
| Return on equity (1) | (2.3%) | 3.3% | 1.8% |
| Return on assets (2) | 1.5% | 6.7% | 4.5% |

(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

4.1.3 Pringle House Limited

Operational performance targets

- (a) Minimise on-going running cost prior to sale
- (b) Maintain adequate security commensurate with building occupancy
- (c) Maintain insurance to cover demolition and indemnity cost
- (d) Ensure immediate legislative obligations are met

Financial performance targets

To ensure the operating budgeted loss of \$482,500 before any loss on sale or revaluation is not exceeded in 2013/14.

4.1.4 Greater Wellington Rail Limited

Operational performance targets

- (a) From Long Term Plan 2012 – 2022
 - (i) Percentage of fleet available for service – 90%
 - (ii) Average condition ratings for buildings and structures – 2.7/5.0*
 - (iii) Average condition rating for car parks – 2.6/5.0
- (b) From the asset management plan
 - (i) Rail assets are maintained in accordance with the maintenance schedules
 - (ii) Mean distance between failure (MDBF) Matangi fleet – 25 000 km
 - (iii) MDBF Ganz fleet – 12 000 km
 - (iv) MDBF carriage fleet – 45 000 km
- (c) Other targets
 - (i) Monitor the contract with Hyundai - Rotem for the provision of the second tranche of Matangi trains
 - (ii) Monitor the contract with Kiwi Rail for the provision of train servicing and maintenance
 - (iii) Monitor various contracts for the provision of infrastructure cleaning, maintenance and security services
 - (iv) Continue to implement the five year renewals and like for like replacement programme
 - (v) Introduce SE carriages onto the Wairarapa line
 - (vi) Maximise leasing and advertising revenue streams (within overall Council policy)

* The scoring grades for assets is on a scale of 1-5 , with 1 being excellent and 5 being extremely poor.

Financial performance targets

| | Greater Wellington Rail Limited | | |
|-------------------------------|--|----------------|----------------|
| | 2013/14 | 2014/15 | 2015/16 |
| Dividend distribution \$ 000s | - | - | - |
| Dividend distribution % | - | - | - |
| Return on equity (1) | (4.5%) | 2.2% | 11.2% |
| Return on assets (2) | (3.1%) | 1.5% | 8.2% |

- (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

4.1.5 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.

Financial performance targets

| | Port Investments Limited | | |
|-------------------------------|---------------------------------|----------------|----------------|
| | 2013/14 | 2014/15 | 2015/16 |
| Dividend distribution \$ 000s | 1,587 | 1,841 | 1,854 |
| Dividend distribution % | 100.0% | 100.0% | 100.0% |
| Return on equity (1) | 67.2% | 78.0% | 78.6% |
| Return on assets (2) | 7.0% | 7.7% | 7.8% |

- (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

4.1.6 Greater Wellington Transport Limited

This company was closed in February 2013 as it had no immediate use.

4.1.7 Greater Wellington Infrastructure Limited

This company was closed in February 2013 as it had no immediate use.

5. CentrePort Performance Targets

The following targets are from CentrePort's 2013/14 – 2015/16 Statement of Corporate Intent (SCI).

Financial performance targets

| Measure | Outlook 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 |
|---|--------------|---------------|---------------|---------------|
| Net Profit Before Tax (\$m) | 12.8 | 14.2 | 15.3 | 15.4 |
| Net Profit After Tax (\$m) | 9.3 | 10.2 | 11.0 | 11.1 |
| Return on Total Assets | 8.2% | 8.6% | 8.9% | 8.9% |
| Return on Port Assets | 9.3% | 9.9% | 10.3% | 10.2% |
| Return on Property Assets | 6.6% | 6.9% | 7.1% | 7.1% |
| Return on Equity | 4.8% | 5.2% | 5.4% | 5.3% |
| Dividend Distribution as a Percentage of NPAT | 40 - 60% | 40 - 60% | 40 - 60% | 40 - 60% |
| Dividend (\$m) | 4.5 | 4.5 | 4.9 | 5.0 |
| Interest Cover Ratio | 3.5 times | 3.9 times | 4.1 times | 4.3 times |
| Gearing Ratio | 42% | 41% | 40% | 39% |

Definitions of the measures

Return on Total Assets is the net profit before interest, tax and depreciation (EBITDA) divided by the average total assets.

Return on Port Assets is net rental income divided by the value of investment property

Return on Equity is the net profit after tax divided by the average equity.

Interest cover ratio is EBITDA divided by Interest Expenses (excluding any payments on Mandatory Convertible Note deferred equity instruments).

Gearing ratio is Total Tangible Assets divided by Total Liabilities

Environmental performance targets

- a) Develop and maintain a formal environmental management system consistent with the standards specified in AS/NZS ISO 14001: 2004.
- b) Formally review, at least annually, the company's compliance with all environmental legislation, district and regional plans and conditions of resource consents held.
- c) Maintain a sustainability programme with measurable performance criteria covering, as a minimum, the monitoring of waste and greenhouse gas emissions.
- d) Undertake the monitoring of environmental discharges in accordance with implemented management plans in the areas of:
 - Port Noise
 - Stormwater discharges to the Coastal Marine Area

- Fumigants associated with the pest treatment of cargoes.
- e) Monitor compliance of the use of Methyl Bromide for the fumigation of log shipments and work collaboratively with Greater Wellington Regional Council and Crown agencies to investigate alternative fumigation options.
- f) Maintain an environment issues register of environmental complaints and issues for monitoring and actioning purposes. The register to be reported to CentrePort's Health, Safety and Environmental Committee on a regular basis (the committee meets 4 times per annum).
- g) Measure CentrePort's carbon footprint on an average tonnage and ship call basis, benchmark the footprint against similar entities, and develop a plan to reduce that footprint to zero.
- h) CentrePort Ltd will hold a minimum of three Environmental Consultative Committee meetings in 2013/14 comprising CentrePort Ltd and affected stakeholders (customers, port users, local authorities, Iwi and residential groups). The meetings provide a forum to identify and inform on a range of environmental port related matters.

CentrePort will report achievement against these targets as part of its annual report including specific initiatives to enhance the environment in which it operates.

Social performance targets

- 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. Supporting the regional community by investing in community sponsorship.
- b) Maintain the tertiary level of compliance with the ACC Workplace Safety Management Practices Programme and comply with the AS/NZS 4801: Occupational Health and Safety Management Systems.
- c) Annual review of Health and Safety Policy.
- d) Maintain compliance with the International Ship & Port Security (ISPS) Code which promotes security against terrorism within the port environment.
- e) Undertake risk assessments and implement any mitigating procedures relating to the Port & Harbour Safety Code which promotes safety and excellence in marine operations.

- f) To meet regularly with representative community groups.
- g) Each year the company will engage in a variety of public awareness activities (for example port tours, speaking at forums, and a biennial Port Open Day).

General performance targets

- a) The company will, in consultation with the shareholders, continue to develop performance targets in the financial, environmental and social areas in order to be able to maintain triple bottom line reporting in accordance with best practice.
- b) When developing ‘property held for development’ the Board is to adhere to the following principles:
 - Properties may be developed without the building being fully pre-let so long as tenancy risk is managed prudently.
 - Property developments must not compromise port operations.
 - Developments are to be undertaken only if they are able to be funded without additional capital from shareholders.
- c) Definition of terms.

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

Performance and Health targets

Financial Performance

| | 2013 | 2017 Target | 2022 Target |
|-------------|-------------|---------------------------------------|---------------------------------------|
| Revenue | \$56m | Updated on completion of CPL strategy | Updated on completion of CPL strategy |
| NPBT | \$13m | As Above | As Above |
| NPAT | \$9m | As Above | As Above |
| Port ROTGA* | 9.3% | As Above | As Above |

*EBITDA to Total Assets

Financial Health

| | 2013 Outlook | 2017 Target | 2022 Target |
|----------------|-------------------------|------------------------|------------------------|
| Rating | BBB + | BBB or above | BBB + |
| Interest Cover | 3.3 times | > 2.75 times | > 3 times |
| Gearing Ratio | 38% | < 45% | < 40% |
| Debt: EBITDA | 3 times | < 5 times | < 5 times |
| Company size | \$331m | >\$400m | >\$450m |

6. Governance of the WRC Holdings Group

- 6.1** The shareholder, Greater Wellington, appoints the directors to WRC Holdings Ltd in terms of Greater Wellington'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 PHL, 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, PHL, PIL and GWRL.
 - The directors of CentrePort are appointed by PIL and Horizons Regional Council.
- 6.2** Any changes to the constitutions of the companies within the Group are to be approved by the shareholder.
- 6.3** Greater Wellington 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 Greater Wellington's overall aims in accordance with section 65 (1) of the LGA 2002.
- 6.4** The directors monitor the performance of each company at each board meeting.

7. Financial Information

7.1 Prospective statement of comprehensive income

Statement of intent (SOI)

| Year ended 30 June \$000 | 2013/14 WRCH GROUP | 2014/15 WRCH GROUP | 2015/16 WRCH GROUP |
|---|-----------------------|-----------------------|-----------------------|
| <u>Prospective statement of comprehensive income</u> | | | |
| Dividends & Equity Earnings | 9,683 | 9,877 | 10,074 |
| Grant from GWRC - Operating | 15,702 | 15,448 | 13,013 |
| Grant from GWRC - Capital | 11,098 | 26,904 | 57,567 |
| Rental income | 2,259 | 2,887 | 6,777 |
| Interest income | 108 | 98 | 111 |
| Other revenue | 58,597 | 60,270 | 60,915 |
| Total revenue | <u>97,448</u> | <u>115,484</u> | <u>148,457</u> |
| Interest expense | 9,294 | 9,299 | 9,187 |
| Depreciation | 29,472 | 28,956 | 31,168 |
| Other expenditure | 59,631 | 58,005 | 60,307 |
| Revaluation (upward) | 2,906 | - | - |
| Total expenditure | <u>101,303</u> | <u>96,260</u> | <u>100,663</u> |
| Surplus/(deficit) before tax | (3,856) | 19,223 | 47,794 |
| Taxation expense (credit) | 1,418 | 5,867 | 13,989 |
| Total comprehensive income (NPAT) | (5,274) | 13,356 | 33,805 |
| Total comprehensive applicable to non-controlling interest | <u>2,354</u> | <u>2,538</u> | <u>2,562</u> |
| Total comprehensive income applicable to parent | (7,628) | 10,818 | 31,243 |

7.2 Prospective statement of financial position

| As at 30 June \$000 | 2013/14 WRCH GROUP | 2014/15 WRCH GROUP | 2015/16 WRCH GROUP |
|---|-----------------------|-----------------------|-----------------------|
| <u>Prospective statement of financial position</u> | | | |
| Opening equity | 405,646 | 409,132 | 440,229 |
| Opening equity non controlling interests | (45,020) | (46,335) | (47,743) |
| New equity | 8,381 | 20,610 | 45,512 |
| Total comprehensive income applicable to parent | (4,722) | 10,818 | 31,243 |
| | <u>364,285</u> | <u>394,225</u> | <u>469,241</u> |
| Dividends distributed | (1,489) | (1,739) | (1,681) |
| Closing Equity Non-controlling interest | 46,336 | 47,742 | 49,151 |
| Closing equity | <u>409,132</u> | <u>440,229</u> | <u>516,711</u> |
| Equity applicable to parent | 362,797 | 392,486 | 467,560 |
| Non-controlling interest | 46,335 | 47,743 | 49,151 |
| Closing equity | <u>409,132</u> | <u>440,229</u> | <u>516,711</u> |
| Current assets | 60,137 | 58,581 | 58,608 |
| Non current assets | 644,203 | 678,328 | 760,539 |
| Total assets | <u>704,340</u> | <u>736,909</u> | <u>819,148</u> |
| Current liabilities | 52,738 | 51,383 | 51,710 |
| Non current liabilities | 242,470 | 245,297 | 250,726 |
| Total liabilities | <u>295,208</u> | <u>296,680</u> | <u>302,436</u> |
| Net assets | <u>409,132</u> | <u>440,229</u> | <u>516,711</u> |

7.3 Prospective statement of changes in equity

| As at 30 June \$000 | 2013/14 WRCH GROUP | 2014/15 WRCH GROUP | 2015/16 WRCH GROUP |
|--|-----------------------|-----------------------|-----------------------|
| <u>Prospective statement of changes in equity</u> | | | |
| Opening equity | 408,552 | 409,132 | 440,229 |
| Shares to be issued during the year | 8,381 | 20,610 | 45,512 |
| Total comprehensive income for the year | (5,274) | 13,356 | 33,805 |
| Dividend to be paid - Equity holders | (1,489) | (1,739) | (1,681) |
| Dividend to be paid - Non controlling Interests | (1,038) | (1,131) | (1,154) |
| Closing Equity | <u>409,132</u> | <u>440,229</u> | <u>516,711</u> |
| Total comprehensive income attributed to: | | | |
| Equity holders - Parent | (7,628) | 10,818 | 31,243 |
| Non - controlling interest | 2,354 | 2,538 | 2,562 |
| Total comprehensive income for the year | <u>(5,274)</u> | <u>13,356</u> | <u>33,805</u> |

7.4 Prospective statement of cash flows

| Year ended 30 June \$000 | 2013/14 WRCH GROUP | 2014/15 WRCH GROUP | 2015/16 WRCH GROUP |
|--|-----------------------|-----------------------|-----------------------|
| <u>Prospective statement of cashflow</u> | | | |
| Cashflows from operations | | | |
| Receipts from operations | 58,273 | 59,947 | 60,959 |
| Interest received | - | - | - |
| Dividends received | 6,972 | 7,111 | 7,253 |
| Payments to suppliers/employees | (38,939) | (39,436) | (40,177) |
| Taxes paid | (1,256) | (1,512) | (1,496) |
| Interest paid | (9,066) | (9,027) | (8,914) |
| <i>Net cash from operating activities</i> | 15,984 | 17,083 | 17,625 |
| Cashflow from investing activities | | | |
| Purchase of fixed assets | (11,765) | (15,567) | (10,302) |
| <i>Net cash from investing activities</i> | (11,765) | (15,567) | (10,302) |
| Cashflows from financing activities | | | |
| Loans | (1,365) | 1,737 | (4,043) |
| Dividends paid | (711) | (1,284) | (1,192) |
| Issue of shares | 8,381 | 20,610 | 45,512 |
| Current Account movement | (10,524) | (22,579) | (47,600) |
| <i>Net cash from financing activities</i> | (4,219) | (1,516) | (7,323) |
| Net increase/(decrease) in cash & cash eqvts | - | (0) | 0 |
| Cash & cash equivalents at beginning of the year | 550 | 550 | 550 |
| Cash and cash equivalents at year end | 550 | 550 | 550 |

7.5 Financial Statements commentary

The prospective statement of comprehensive income shows other revenue growth. This growth stems mainly from GWRL increasing Capital grants, The Grants from Greater Wellington are for the capital expenditure in GWRL not financed by Equity contributions. The growth in Rental Income is driven by the higher level of rail rolling stock acquired by GWRL. Other Revenue is CentrePort Income from both Port and Property activities.

Interest expense is flat reflecting a static level of debt, with CentrePort funding its capital expenditure programme from operating activities. CentrePort's debt level moves from a forecasted \$111 million in June 2013 to \$108 million in June 2016. This compares to last years SOI which had it moving to \$145 million in June 2015.

The depreciation increase is driven equally from GWRL and CentrePort, and relates to the increasing capital expenditure.

The other expenditure increase is driven mainly by CentrePort, and to a lesser extent by GWRL stemming from its maintenance costs.

The revaluation in June 2013/14 relates to a \$2.9m write down of WRC Holdings investment in PHL.

Equity increases by \$108 million over the period, and is due to new equity injections from Greater Wellington into WRC Holdings of \$74 million to fund the purchase of GWRL assets, and earnings of \$42 million, offset by dividends paid.

The deficit in 2013/14 is driven by a \$7.9 million loss in GWRL, due to capital grants being lower than depreciation. Note all costs except depreciation are covered by operating grants and a \$2.9 million loss in PHL, due to loss on sale of the Regional Council Centre and its holding costs.

The financial ratios of return on total assets and return on shareholders equity are being distorted by the capital grants in GWRL. These provide higher Earning before interest & tax and higher Net profit after tax for the calculation of the above ratios in 2015/16 and lower returns in both 2013/14 and 2014/15. The above is a result of our accounting methodology of accounting for Public Benefit Entity, where capital grants are recorded as revenue in the statement of Comprehensive Income.

The large current account movement in the cash flow refers to the fact that the transactions between the WRC Holding companies are transacted via the current accounts and not via the bank accounts as a result there are no cash movements.

Performance targets

| | 2013/14 (\$000) | 2014/15 (\$000) | 2015/16 (\$000) |
|---|--------------------|--------------------|--------------------|
| Surplus before tax | (3,856) | 19,223 | 47,794 |
| Surplus after tax | (5,274) | 13,356 | 33,805 |
| Earnings before interest, tax and depreciation. | 33,928 | 56,048 | 86,304 |
| Return on total assets | 0.8% | 4.0% | 7.3% |
| Return on shareholder equity | (2.0%) | 2.9% | 7.3% |
| Shareholders equity to total assets | 51.9% | 52.4% | 55.3% |
| Dividends | 1,489 | 1,739 | 1,681 |

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.

7.6 Statement of Accounting Policies

Statement of Compliance

The "Group" consists of WRC Holdings Ltd, its wholly owned subsidiaries, Pringle House Ltd, Port Investments Ltd, Greater Wellington Rail Ltd and its 76.9% subsidiary CentrePort Ltd, together with its subsidiaries.

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 prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit oriented entities.

The Group financial statements comply with FRS 42 (Financial Reporting Standards No 42 – Prospective Financial Statements).

Basis of Preparation

The prospective financial statements have been prepared on the basis of historical cost except for the revaluation of operational port freehold land, investment properties and financial instruments as outlined below.

Cost is based on the fair value of the consideration given in exchange for assets.

The going concern concept has been adopted in the preparation of these financial statements.

For the purposes of financial reporting, WRC Holdings is designated as a public benefit entity. The subsidiary companies comprise Pringle House Limited, Port Investments Limited, Greater Wellington Rail Limited and CentrePort Limited. All subsidiaries, except Greater Wellington Rail Limited, are designated as profit-oriented entities. Greater Wellington Rail is designated as a public benefit entity.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

These prospective financial statements contain no actual operating results.

The Board is responsible for the prospective statements presented, including the assumptions underlying the prospective financial statements and all other disclosures.

The Group does not intend to update these financial statements during the year after the final SOI has been received by Greater Wellington in June. The next planned update of the prospective financial statements is the 2014/17 Statement of Intent.

Specific Accounting Policies

The specific accounting policies adopted in the preparation of these financial statements, which materially affect the measurement of the prospective statement of comprehensive income, prospective statement of movements in equity, prospective statement of financial position and prospective cash flows are set out below:

Basis of Consolidation

The Group financial statements include WRC Holdings Ltd and its subsidiaries. The subsidiaries are accounted for using the purchase method which involves adding together corresponding assets, liabilities, revenues and expenses on a line by line basis. The associate companies are accounted for on an equity accounting basis, which shows the share of surplus/deficits in the

Group's statement of comprehensive income and share of post acquisition increases/decreases in net assets in the Group's balance sheet.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the statement of comprehensive income in the period of acquisition.

All significant inter-company transactions are eliminated on consolidation.

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of consideration received and the fair value of any returned interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

Changes in the Group's Ownership Interests in Existing Subsidiaries

Consolidation of a subsidiary begins when the Parent obtains control over the subsidiary and ceases when the Parent loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Parent ceased to control the subsidiary.

Prospective Statement of Cash Flows

The following are the definitions used in the statement of cash flows:

- (a) Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank.
- (b) Investing activities are those activities relating to the acquisition and disposal of Property, Plant and Equipment, Investment Property, Intangible Assets and Joint Ventures. Investments include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in the changes in size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to capital structure are included in financing activities.
- (d) Operating activities include all transactions and other events that are not investing or financing activities.
- (e) Goods and Services Tax (GST) is accounted for on an accruals basis consistent with the statement of comprehensive income.
- (f) Current Account movements refer to the inter-company transactions of the subsidiary which are not transacted via the bank accounts.

Revenue

Revenue shown in the statement of comprehensive income comprises the amounts received and receivable by the Group for services provided to customers in the ordinary course of business based on the stage of completion of the contract at balance sheet date.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividend revenue from investments is recognised on a receivable basis.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Grants are recognised in the statement of comprehensive income when eligibility has been established by the grantor.

Income is stated exclusive of GST collected from customers.

Property, Plant and Equipment

The Group has seven classes of Property, Plant and Equipment:

- Freehold land
- Buildings, wharves and paving
- Cranes and floating plant

Plant, vehicles and equipment

Rail infrastructure

Rail rolling stock

Work in progress

Operational port freehold land and Pringle House is stated at valuation determined every three years by an independent registered valuer. The basis of valuation is fair value which is determined by reference to the assets highest and best use as determined by an independent valuer.

The fair value of operational port freehold land is recognised in the financial statements of the Group and reviewed at the end of each reporting period to ensure that the carrying value of land is not materially different from its fair value. Any revaluation increase of operational port land is recognised in other comprehensive income and accumulated as a separate component of equity in the properties revaluation reserve, except to the extent it reverses a previous revaluation decrease for the same asset previously recognised in statement of comprehensive income, in which case the increase is credited to statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged to the statement of comprehensive income to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The remaining Property, Plant & Equipment acquired by CentrePort on 1 October 1988 are recorded at cost less accumulated depreciation and impairment, based on a business valuation carried out in accordance with the Company plan under Section 21 of the Port Companies Act 1988. Subsequent purchases of remaining Property, Plant & Equipment are recorded at cost. Cost represents the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service. All these Property Plant & Equipment are depreciated excluding land.

Investment Properties

Investment properties, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in fair value of investment property are included in profit or loss in the period in which they arise.

The Group has two classes of investment properties:

- Developed Investment Properties
- Land Available for Development

Leased Assets

Group entities lease certain land, buildings, wharves and plant. Leases are finance leases wherever the terms of the lease transfer substantially all the risk

and rewards of ownership to the lessee. All other leases are classified as operating leases. All leases held by the Group are classified as operating leases.

Consolidated entity as lessee:

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Consolidated entity as lessor:

Operating leases (excluding land) relate to subleases of surplus of properties leased by the company for its own operation use, with lease terms between 1 and 12 years, with an option to extend for a further period between 1 to 6 years. All operating lease contracts (excluding land) contain market review clause. An operating lease relating to land has a term of 125 years. The lessee does not have an option to purchase the land at expiry of the lease period.

Lease incentives:

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Assets held for sale

Assets are classified as held for sale if its intended that their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Intangibles

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives between 1 and 5 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidation entity estimates the recoverable amount of the cash-generating using to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market

assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had not impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Depreciation

There is no depreciation on capital works in progress and operational port land or investment properties. Depreciation on all other property plant and equipment is charged on a straight line basis so as to write off the cost of the assets to their estimated residual value over their expected economic lives. The expected economic lives are as follows:

| | |
|-------------------------------|-----------------|
| Buildings, wharves and paving | 10 to 50 years |
| Cranes and floating plant | 4 to 20 years |
| Plant, vehicles and equipment | 2 to 20 years |
| Rail rolling stock | 5 to 35 years |
| Rail Infrastructure | 5 to 50 years |
| Other Assets | 0 to 20 years |
| Capital work in progress | Not depreciated |

The economic useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

Borrowing Costs

Borrowing costs directly attributable to capital construction are capitalised as part of the cost of those assets. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Investments

Investments in subsidiaries are valued annually at the lower of cost and net asset backing. The change in valuation is recognised in the statement of comprehensive income.

Investments in associates are stated at the fair market value of the net tangible assets at acquisition plus the share of post-acquisition increases in reserves.

Investment properties are revalued annually to net current value. The change in valuation is recognised in the statement of comprehensive income. There is not any depreciation on investment properties.

Other investments are stated at the lower of cost and fair value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposit held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision has been made for obsolescence where applicable. Apart from fuel stocks, inventories are held for maintenance purposes only.

Income Taxation

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets and liabilities are offset only when the Group has a legally enforceable right to set off the recognised amounts, and intends to settle on a net basis.

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and

liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Goods and Services Tax (GST)

The Group is part of the Wellington Regional Council GST Group. All items in the financial statements are exclusive of GST, with the exception of CentrePort's receivables and payables, which are consolidated inclusive of GST.

Cash flows are included in the cash flow statement on a net basis for GST purposes. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

Provision for Employee Entitlements

A provision for employee entitlements is recognised as a liability in respect of benefits earned by employees but not yet received at balance date when it is

probable that settlement will be required and they are capable of being measured reliably. Employee benefits include salaries, wages, annual leave, sick leave and long service leave. Where the services that gave rise to the employee benefits are expected to be settled within twelve months of balance date, the provision is the estimated amount expected to be paid by the Group. The provision for employee benefits not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows expected to be incurred.

The present value is determined by discounting the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liabilities

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial Instruments

As part of normal operations, the Group is party to financial instruments with risk to meet operational needs. These financial instruments include bank overdraft facilities, interest rate swap agreements and forward foreign exchange contracts and an option to extend the term of the mandatory convertible notes. Interest rate swap agreements are used within predetermined policies and limits in order to manage interest rate exposure.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial Assets

Investments are recognised and derecognised on trade date where purchase and sale of an investment is under a contract whose terms require delivery of the investments within the timeframe established by the market concerned, and are initially at fair value, plus transactions costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

In the Parent financial statements subsequent to initial recognition, investments in subsidiaries and joint ventures are measured at cost.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through statement of comprehensive income

The Group has classified certain derivative instruments as financial assets at fair value through the statement of comprehensive income. The policy for these items is outlined in the note on Derivate Financial instruments.

Loans and receivables

Cash and cash equivalents, trade receivables, loans, and other receivables are recorded at amortised cost using the effective interest method less impairment.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or financial liability.

Financial liabilities

Financial liabilities are classified as either fair value through profit or loss, or at amortised cost. Financial liabilities at amortised cost include trade and other payables and borrowings.

Trade and other Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services and are subsequently recorded at amortised cost using the effective interest method.

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised costs with any difference between the initial recognised amount and the redemption

value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

Derivative financial instruments

The Group entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at cost on the date a derivative contract is entered into, which is equivalent to fair value, and are subsequently re-measured to fair value at each reporting date. Changes in fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in statement of comprehensive income.

Cash settlement of derivatives adjusts the line in the statement of comprehensive income to which the cash settlement relates.

Offsetting financial instruments

Financial Assets and Liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments issued by the company

Equity instruments

Equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Dividends

Dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related equity instrument.

Foreign Currency Transactions

Transactions in foreign currency are converted at the rate of exchange ruling at the date of the transaction. At balance date, foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these transactions are recognised in the statement of comprehensive income.

Interests in Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the

consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture.

An investment is accounted for using the equity method from the date on which the investee becomes a joint venture.

The requirements of NZ IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with NZ IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with NZ IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profit and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the joint venture that are not related to the Group.

All intra-group transactions are eliminated on consolidation. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

7.7 Assumptions in preparing the prospective financial statements

The prospective financial statements information contained in this SOI is based on assumptions that WRC Holding Group reasonable expected to occur at 20 June 2013. Actual results are likely to vary from the information presented and variations could be material.

- No revaluations of property, plant and equipment is projected, as this would not have a material effect on the prospective financial statements.
- The debt interest rate assumption for the WRC Holdings excluding CentrePort Limited is 4.2% for the 2013/14 year and 4.3% and 4.5% for the next two years respectively after all margin costs. Interest rate hedging is in place to mitigate 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 groups accounting policies.
- The purchase of the second tranche of Matangi units and the subsequent grant and equity contribution from Greater Wellington to pay for these is subject to variation in timing of delivery of the trains by Hyundai-Rotem.

- Regional Council Centre is assumed to be sold by June 2014. The sale price is set at level such that all assets and liability of PHL are met and thus the company ends up with zero equity. This is done for simplicity and actual sale price could vary significantly from this assumption.
- That the Regional Council Centre lease with the Council will be terminated on vacation by the Council with no further rentals being paid post 30 June 2013.

8. Issues Facing the Group

8.1 Economy – CentrePort

8.2 Financial Forecasts – CentrePort

8.3 Capital Structure– CentrePort

8.4 Pringle House Limited

The major issues facing Pringle House are:

- The Council has indicated it will be relocating out of the Regional Council Centre due to the Earthquake prone nature of the building.
- The Council’s lease of the Regional Council Centre is till 2019. It is likely this will be terminated early, which will significantly impair the value of the premise.
- The cost to upgrade the building to current code or minimum code is significant as a result this plan assumes the building will be sold.

8.5 Greater Wellington Rail Limited

The current issues facing GWRL are:

Optimising the design for Matangi 1 and introducing the Matangi 2 fleet into service

Closing out the Matangi 1 modifications and retrofit programme

Demolishing the 1940s section of the EMU Depot

Disposing of the non operational Ganz Mavags

Going to the market to procure performance based operate and maintain rail services for 2016

Implications to the budget of the Capital Connection rail services decision

8.6 Port Investments Limited

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

The dividend from CentrePort finances the \$44,000,000 loan, consequently the dividend stream from CentrePort and the interest cost from the loan should, at worst, be the same.

The profitability of PIL is a function of the dividends and subventions received from CentrePort and the level of interest cost to service the loan.

Subvention payments have previously been received directly by PIL but future projections are now forecast to be paid directly to the ultimate shareholder Greater Wellington.

This has the impact of reducing the profitability of the WRC Holdings Group, but the ultimate shareholder is unaffected.

9. Distribution of Profits to Shareholders

The dividend policy for each company will be reviewed by the board's of each company from time to time, after taking account of the wishes of the shareholder, the future circumstances as they may exist 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. Dividend levels will be reviewed by the Board each year, and agreed with the shareholder. The forecast dividend for the 3 years is \$4.5, \$4.9 and \$5.0 million for the three years respectively.

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) effective from the 2010/11 financial year. The target dividend payout 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 Group the expectation is that the dividends paid will be the maximum practical amount. 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 shareholders 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 review of operations
 - a summary of achievements measured against the performance targets
 - the dividend.
- (b) Report to the shareholder each quarter.
- (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

- 11.1** The Boards of WRC Holdings, PHL, PIL, GWRL will obtain the prior approval of Greater Wellington 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. (N.B: CentrePort is governed by a separate constitution.)
- 11.2** Section 60 of the Local Government Act 2002 requires that all decisions relating to the operation of the company must be made in accordance with its SOI and its constitution.

12. Compensation

- 12.1** The Chair of WRC Holdings will receive an annual remuneration of \$19,000. Councillors, who are also directors of WRCHL, PHL, PIL, and GWRL, will receive travelling expenses based on the rates applicable to members of the Council. Directors of those companies, who are not members of the Council, will receive directors' fees as approved by the Council from time to time.
- 12.2** The WRCH Group of companies will seek compensation by agreement from Greater Wellington Regional Council for:
 - (a) Rental and tenancy expenses with regard to the occupation of the Regional Council Centre.
 - (b) Interest and financial costs relating to the provision of any inter-company loans, other financing arrangements and current account balances that may accrue.
 - (c) 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

- 13.1** The commercial value of the Regional Council Centre will be determined annually by an independent property valuer in accordance with the company's accounting policies, and reported in the statement of financial position.
- 13.2** A re-assessment of the valuation of other investments will be undertaken as may be required from time to time by the directors or shareholders.