



WRC Holdings Group Statement of Intent

(Covering the years to 30 June 2017, 2018 and 2019)

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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, 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 (the Regional Council).

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, 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.

3. Objectives and Activities of the Group

3.1 Objectives

The objectives of the Group shall be to:

- 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.

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.

- 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, make sure:
- 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 then current rail operator of the rail services and maintenance provider of GWRL's Rail Assets; and
 - GWRL complies with its responsibilities as a rail participant under the Railways Act 2005, the current health and safety legislation and any other legislation affecting the GWRL's Rail Assets and operations
 - GWRC develops and maintains a systematic approach for the long-term management of GWRL's public transport rail assets in a manner consistent with industry best practice
- e) Adopt policies that prudently manage risks and protect the investment of its shareholders
- f) Have a sense of social and environmental responsibility in regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these.
- g) Conduct its affairs in accordance with sound business practice
- h) Achieve the objectives and performance targets of the shareholder.

3.2 Activities of the Group

WRC Holdings Limited

WRC Holdings Limited is the holding company for 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.

Greater Wellington Rail Limited

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

Rolling Stock:

18 - SW Carriages

- 6 - SE Carriages
- 1 - AG Luggage van
- 83 - 2 Car Matangi units (when delivery is concluded in 2016)

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.

The bulk of the above infrastructure assets were taken over from KiwiRail in June 2011 for \$1 consideration, \$5.3 million of assets were transferred from the Regional Council to GWRL in June 2012 and the remainder are new or renewed assets that have been built under GWRL's capital expenditure programme since 2011.

Greater Wellington Rail Limited is responsible for all aspects of asset management 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 directly and from July 2016 will be delivered via a 15 year 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 are the manufacturers of the GWRL Matangi fleet).

The Partnering Contract was signed in March 2016 with Transdev taking over operations from July 2016, after a comprehensive international procurement process.

The Regional Council is spending \$170 million in total to replace the Ganz Mavag units with a second tranche of 35 Matangi units. The expenditure commenced in 2014/15 year and will be completed by 2016/17. This also includes an upgrade to some components of the existing Matangi to realise whole of life savings and improve the operational flexibility, efficiency and safety.

These 35 new Matangi units are being introduced into service over the period middle 2015 to late 2016. 15 Ganz Mavag units have been withdrawn from service and have been sold. The remaining 27 Ganz Mavag units have also

been sold and will be progressively taken out of operational service as the second tranche of Matangi Trains are commissioned into service.

Other planned expenditure on rail assets over the next 3 years includes \$56 million for renewal work and like-for-like replacement of rail related infrastructure, heavy maintenance/overhauls on the first Matangi Fleet, and up to \$10 million on the SW and SE cars to extend their lives.

Port Investments Limited

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

The major activities of CentrePort, who produce their own Statement of Intent, similar to this SOI, are:

- Port infrastructure (land, wharves, buildings, equipment, utilities)
- Shipping and logistical services (pilotage, towage, berthage)
- Operational service (cargo handling, warehousing, facilities management, property management, security, emergency services)
- Integrated logistics solutions (networks, communications, partnerships)
- Property services (development, leasing management)
- Joint ventures (coldstore, container repair, cleaning, packing, unpacking and storage).

Port Investments monitors the performance of CentrePort.

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 and Group.

Financial performance targets

	WRC Holdings Limited		
	2016/17	2017/18	2018/19
Dividend distribution \$ 000s	3,552	3,966	4,273
Dividend distribution %	100%	100%	100%
Return on equity (1)	1.6%	1.7%	1.7%
Return on assets (2)	1.9%	1.9%	1.9%

(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

4.1.3 Greater Wellington Rail Limited

Operational performance targets ²

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

Level of Service	2016/17 Target	
ROLLING STOCK - ASSET MANAGEMENT		
Days 100% availability not met	Matangi:	1 day per month
	Carriage fleet: month	0.5 days per month
Average condition grade of :	Matangi	<2.5
	Carriages	<2.5
Mean distance between failure	Matangi:	37,500km
	Carriages:	45,000km
RAIL FIXED ASSET - ASSET MANAGEMENT		
Percentage of facilities with CCTV coverage	71%	
Average condition grade of:	Station buildings & shelters:	<2.5
	Structures (subways & bridges):	<2.5
	Park & Ride:	<2.5
Percentage of assets in condition grade 4 (Poor) or worse	Station buildings & shelters:	10%
	Structures (subways & foot bridges):	15%
	Park & Ride:	20%

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

Capital project targets

- Deliver the second tranche of Matangi trains and M1 upgrade programme in accordance with the supply contract.
- Deliver train maintenance services within approved budgets through an operations and maintenance contract ensuring that train availability and reliability targets are met.
- Deliver infrastructure cleaning, maintenance and security services within approved budgets through various contracts ensuring asset condition does not deteriorate.
- Implement rail infrastructure asset renewals and like-for-like replacement programme in accordance with the asset investment priority framework.

² The scoring grades for rail assets are on a scale of 1-5, with 1 being excellent and 5 being extremely poor

Financial performance targets

	Greater Wellington Rail Limited		
	2016/17	2017/18	2018/19
Dividend distribution \$ 000s	-	-	-
Dividend distribution %	-	-	-
Return on equity (1)	(5.0%)	(5.0%)	(5.4%)
Return on assets (2)	(4.2%)	(4.3%)	(4.7%)

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

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

4.1.4 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		
	2016/17	2017/18	2018/19
Dividend distribution \$ 000s	3,625	4,042	4,347
Dividend distribution %	100.0%	100.0%	100.0%
Return on equity (1)	138.3%	154.2%	165.8%
Return on assets (2)	9.8%	10.7%	11.4%

- (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

5. CentrePort Performance Targets

Financial Performance measures 3 year- SOI

Extract from CentrePort's 2016/17 – 2018/19 Statement of Intent (SOI).

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

Measure		Outlook FY16	Forecast FY17	Forecast FY18	Forecast FY19
Group EBIT plus JV & Associate Earnings ('Group EBIT')	\$m	24.1	25.5	28.0	29.9
Port EBIT plus JV & Associate Earnings ('Port EBIT')	\$m	16.4	18.7	21.2	22.8
Property EBIT plus JV & Associate Earnings ('Property EBIT')	\$m	7.7	6.9	6.8	7.1
Underlying Net Profit Before Tax	\$m	17.1	17.6	19.5	20.9
Underlying Net Profit After Tax ('Underlying NPAT')	\$m	14.4	14.4	15.7	16.7
Dividend	\$m	6.8	6.5	7.1	7.6
Imputation credits attaching to Dividends	\$m	2.6	2.5	2.8	3.0
Shareholders' Funds ('Equity') or Net Assets	\$m	205.1	214.4	224.5	235.0
Number of issued shares	000	23,425	23,425	23,425	23,425
Group EBIT Return on Assets	%	7.5%	7.6%	7.8%	8.0%
Port EBIT Return on Port Assets	%	7.8%	8.5%	9.0%	9.1%
Property EBIT Return on Property Assets	%	7.0%	5.9%	5.5%	5.6%
Property EBIT Return on Improved Property Assets	%	8.3%	7.3%	7.2%	7.5%
Underlying NPAT Return on Group Equity	%	7.1%	6.9%	7.2%	7.3%
Dividend Distribution as a %ge of Underlying NPAT	%	42%	45%	45%	45%
Underlying earnings (NPAT) per share	\$	0.62	0.62	0.67	0.71
Dividend per share	\$	0.29	0.28	0.30	0.32
Net Asset backing per share	\$	8.75	9.15	9.58	10.03

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, FY16 means financial year ended 30 June 2016.

SOI - 3 year - Financial Health measures

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

Financial Health	Target	Outlook FY16	Forecast FY17	Forecast FY18	Forecast FY19
Current Assets (\$m)	n/a	17.0	13.1	12.8	13.3
Current Liabilities (\$m)	n/a	8.5	11.6	11.9	13.1
Total Assets (\$m)	n/a	338.6	363.1	382.5	396.3
Shareholders' Funds - Equity (\$m)	n/a	205.1	214.4	224.5	235.0
Term Borrowings (\$m)	n/a	108.0	121.5	132.0	135.5
Debt (\$m)	n/a	125.4	136.9	145.4	146.9
Equity Ratio	> 45%	60.6%	59.1%	58.7%	59.3%
Gearing	< 50%	37.9%	39.0%	39.3%	38.5%
Interest cover	> 2.5 times	4.3 times	4.1 times	4.1 times	4.2 times
Solvency Ratio	> 0.6	2.00	1.13	1.08	1.02

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.

Safety and Security

Specific areas of focus for Safety and Security within the Port over FY17-19 are:

Objective	Performance measure	Performance target		
		FY17	FY18	FY19
Year on year improvement towards zero harm	Implementation of five year action plan	Review and renew plan	Year one action items completed	Year two action items completed
	Lost Time Injury Frequency (per 200,000 hours worked)	≤ 4.0	≤ 3.6	≤ 3.2
	Lost Time Injury Severity (per 200,000 hours worked)	≤ 60	≤ 50	≤ 40
	bSafe Reports (incident and near miss reports)	> 700	> 800	> 900
Maintain tertiary level of compliance with the ACC Workplace Safety Management Practices (WSMP)	Tertiary status maintained	Status retained	WSMP Audit completed and passed	Status retained
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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Environmental

Specific areas of focus for Environmental management of the Port over FY17-19 are:

The performance targets for our environmental objectives are:

Objective	Performance measure	Performance target		
		<i>FY17</i>	<i>FY18</i>	<i>FY19</i>
Ensure regulatory compliance	Compliance breaches	Zero	Zero	Zero
Minimise risk to the environment	System: consistency with ISO14001	Audit and first stage certification ¹ complete	Audit and second stage certification complete	Audit and third stage certification complete (full ISO14001 compliance)
	Incidents: number of registered environmental incidents(FY 2015 Baseline - 32)	Decrease from previous year	Decrease from previous year	Decrease from previous year
	Complaints: number of complaints from external stakeholders about environmental performance	Zero	Zero	Zero
Realise opportunities to be more sustainable	Greenhouse gas emissions (quantity CO ₂ equivalent). Emissions measured in accordance with ISO 14064-1: 2006 and the Greenhouse Gas Protocol.	Emissions intensity reduction plan and targets complete	Intensity reduction target to be advised Verified annual emissions inventory complete	Intensity reduction target to be advised
	Ozone depleting substances used (quantity methyl bromide released to atmosphere)	100% use of recapture technology for container fumigation	100% use of recapture technology for container fumigation	100% use of recapture technology for container fumigation
	Solid waste to landfill (quantity)	Waste monitoring system (and reduction plan)	Reduction target to be advised	Reduction target to be advised

		developed		
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 reported in Annual Report	Performance against targets reported in Annual Report	Performance against targets 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

Social performance targets

Specific areas of focus for our Social activities over FY17-19 are:

- a) Contribute to the desired outcome of the Wellington Regional Strategy through:
 - i. The provision of workplace opportunities and skills enhancements of our employees.
 - ii. Ensuring the regional economy is connected by the provision of high quality port services to support international and coastal trade.
 - iii. Collaborating with key partners of CentrePort's business to improve service outcomes.
- b) Supporting the regional community by investing in community sponsorship and engaging community activities.
- c) To meet regularly with representative community groups

General performance targets

Other specific areas of focus over FY17-19 are:

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

Definition of terms regarding property:

Management of tenancy risk means that each single property investment has committed rental income (via development and executed lease contracts) that is

sufficient to meet forecast interest costs on (i) the cost of the site development related to the development and (ii) the cost of the construction of the development and the vacant net lettable area of the proposed development is no greater than 25%.

6. Governance of the WRC Holdings Group

6.1 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.

6.2 Any changes to the constitutions of the companies within the Group are to be approved by the shareholder.

6.3 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.

6.4 The directors monitor the performance of each company at each board meeting.

7. Financial Information

7.1 Prospective statement of comprehensive income

Year ended 30 June	2016/17	2017/18	2018/19
\$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
<u>Prospective statement of comprehensive income</u>			
Dividends & Equity Earnings	6,885	6,642	6,525
Grant from GWRC - Operating	10,631	10,839	10,911
Rental income	9,653	10,271	10,931
Interest income	191	196	212
Other revenue	79,584	87,749	95,849
Total revenue	106,944	115,697	124,428
Interest expense	9,265	9,879	10,467
Depreciation	25,716	26,617	28,409
Other expenditure	73,797	79,652	86,022
Revaluation (upward)	(1,440)	(1,440)	(1,440)
Total expenditure	107,338	114,707	123,459
Surplus/(deficit) before tax	(393)	990	970
Taxation expense (credit)	(1,891)	(1,425)	(1,378)
Total comprehensive income (NPAT)	1,498	2,415	2,348
Total comprehensive applicable to non-controlling interest	3,658	3,956	4,192
Total comprehensive income applicable to	(2,160)	(1,541)	(1,844)

7.2 Prospective statement of financial position

As at 30 June \$000	2016/17 WRCH GROUP	2017/18 WRCH GROUP	2018/19 WRCH GROUP
<u>Prospective statement of financial position</u>			
Opening equity	518,821	543,301	553,668
Opening equity non controlling interests	(47,325)	(49,483)	(51,801)
New equity	28,034	13,554	12,920
Total comprehensive income applicable to parent	(2,160)	(1,541)	(1,844)
	497,371	505,832	512,942
Dividends distributed	(3,552)	(3,966)	(4,273)
Closing Equity Non-controlling interest	49,483	51,801	54,239
Closing equity	543,301	553,668	562,909
Equity applicable to parent	493,818	501,867	508,671
Non-controlling interest	49,483	51,801	54,238
Closing equity	543,301	553,668	562,909
Current assets	32,875	33,531	34,754
Non current assets	692,530	706,077	712,086
Investments	85,507	86,649	86,974
Total assets	810,913	826,258	833,814
Current liabilities	22,304	23,405	25,237
Borrowings	121,500	132,000	135,500
Non current liabilities	123,807	117,185	110,168
Total liabilities	267,611	272,590	270,905
Net assets	543,302	553,668	562,909

7.3 Prospective statement of changes in equity

As at 30 June \$000	2016/17 WRCH GROUP	2017/18 WRCH GROUP	2018/19 WRCH GROUP
<u>Prospective statement of changes in</u>			
Opening equity	518,821	543,301	553,668
Shares to be issued during the year	28,034	13,554	12,920
Total comprehensive income for the year	1,498	2,415	2,348
Dividend to be paid - Equity holders	(3,552)	(3,966)	(4,273)
Dividend to be paid - Non controlling Interests	(1,500)	(1,638)	(1,754)
Closing Equity	<u>543,301</u>	<u>553,668</u>	<u>562,909</u>
Total comprehensive income attributed to:			
Equity holders - Parent	(2,160)	(1,541)	(1,844)
Non - controlling interest	3,658	3,956	4,192
Total comprehensive income for the year	<u>1,498</u>	<u>2,415</u>	<u>2,348</u>

7.4 Prospective statement of cash flows

Year ended 30 June \$000	2016/17 WRCH GROUP	2017/18 WRCH GROUP	2018/19 WRCH GROUP
<u>Prospective statement of cashflow</u>			
Cashflows from operations			
Receipts from operations	112,072	108,102	116,994
Interest received	274	280	212
Dividends received	9,785	9,125	6,200
Payments to suppliers/employees	(70,832)	(79,714)	(84,742)
Taxes paid	(3,163)	(3,610)	(4,095)
Interest paid	(9,123)	(9,693)	(10,281)
Net cash from operating activities	39,013	24,491	24,288
Cashflow from investing activities			
Purchase of Fixed Assets - Rail	(28,034)	(13,554)	(12,920)
Purchase of Fixed Assets - Port	(25,261)	(23,190)	(17,248)
Purchase of Fixed Assets - Property	(10,050)	(3,418)	(250)
Proceeds sale of Plant & equipment	-	-	-
Proceeds sale of Property	6,700	-	-
Sale of Lessee's Interest in land	-	-	-
Net cash from investing activities	(56,645)	(40,162)	(30,418)
Cashflows from financing activities			
Borrowings	13,500	10,500	3,500
Dividends paid	(4,962)	(9,046)	(5,988)
Issue of shares	28,034	13,554	12,919
Current Account movement	(17,866)	523	204
Lease Buy Back	-	-	(4,000)
Net cash from financing activities	18,706	15,531	6,635
check	-	-	-
Net increase/(decrease) in cash & cash eqvts	1,075	(141)	505
Cash & cash equivalents at beginning of the yea	606	1,680	1,539
	-	-	-
Cash and cash equivalents at year end	1,680	1,539	2,044

Financial Statements commentary

The prospective statement of comprehensive income shows revenue growing over the forecast period. This is stemming predominately from other revenue i.e. Port revenues from CentrePort.

Interest expense increases due to slightly higher interest rates over time and higher levels of debt in CentrePort.

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

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

The revaluations relate to CentrePort revaluing their derivatives from previous devaluations as they are used.

The credit from tax refers to the movement (reduction) in deferred tax emanating from GWRL.

Equity increases by \$44 million over the period (2016/17 to 2018/19), and is due to \$55 million of new equity injections from the Regional Council into WRC Holdings to fund capital expenditures in GWRL. This is offset by \$11 million of dividend payments.

The deficits before tax in 2016/17 is driven by \$17.9 million loss in GWRL (depreciation not funded) and is not fully offset by the profit from CentrePort. In later two years the growing profit from CentrePort offsets the losses in GWRL.

Note the depreciation from GWRL amounting to \$18.0 million, \$18.5 million and \$20 million for the three forecasted years respectively continues to adversely impact the profitability of the Group as it is not funded.

The financial ratios of return on total assets and return on shareholder's equity are being distorted by the operational losses from GWRL and by the fact that the equity being injected into WRC Holdings & GWRL for capital expenditures is not generating a return.

Performance targets

	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)
Surplus before tax	(393)	990	970
Surplus after tax	1,498	2,415	2,348
Earnings before interest, tax and depreciation.	34,587	37,486	39,846
Return on total assets	1.0%	1.3%	1.4%
Return on shareholder equity	0.3%	0.5%	0.5%
Shareholders equity to total assets	60.8%	60.8%	60.9%
Dividends	3,552	3,966	4,273

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.

7.5 Statement of Accounting Policies

Statement of compliance

The "Group" consists of WRC Holdings Ltd, its wholly owned subsidiaries, Port Investments Ltd, Greater Wellington Rail Ltd, and its 76.9% subsidiary CentrePort Ltd, together with its subsidiaries. WRC Holdings principal address is 2 Fryatt Quay, Wellington, New Zealand.

WRC Holdings provide transport, infrastructure, buildings and port facility and operations to the Greater Wellington region via its subsidiaries, for community and social benefit, rather than to make a financial return. Accordingly WRC Holdings has designated its self as public benefit entities (PBE's) and applies New Zealand Tier 1 Public Sector Public Benefit Entity accounting standards (PBE Accounting Standards).

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.

These prospective financial statements are the first financial statements presented in accordance with the new PBE accounting standards.

Unless otherwise stated, all amounts are rounded to \$000 and are expressed in New Zealand currency.

Statement of accounting policies

(a) Basis of preparation

The 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.

For the purposes of financial reporting, WRC Holdings is designated as a public benefit entity. The subsidiary companies comprise 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.

The accounting policies set out below will be applied consistently to all periods presented in these consolidated financial statements except for those instances where the transition to PBE Accounting Standards has required a change in accounting policies.

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.

Specific accounting policies

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

Changes to significant accounting policies resulting from introducing PBE Accounting Standards

(a) Revenue

The PBE Accounting Standards required revenue to identified/classified as exchange or non exchange. Exchange transaction revenue arises when one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange (PBE IPSAS 9 Exchange Revenue).

Non exchange transaction revenue arises from transactions without and apparent exchange of approximately equal value. Non exchange revenue includes grants and subsidises (PBE IPSAS 23 Revenue from non exchange).

(b) Critical Accounting Estimates and Judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Property, Plant & Equipment and Investment Property

Port operational land was revalued to fair value at 31 December 2013. Investment Property was revalued to fair value at 30 June 2015.

The Board and management have undertaken a process to determine what constitutes Investment Property and what constitutes Property, Plant & Equipment. There is an element of judgement in this. There is a developed Port plan, and those items of land that are considered integral to the operations of the Port have been included in Operational Port Land. Land held specifically for capital appreciation or to derive rental income have been classified as Investment Property.

CentrePort estimates the extent of future infrastructure costs that will be incurred to create investment property sites at Harbour Quays. These future costs have been taken into account when determining the fair value of investment property.

Joint Control of Harbour Quays Special Purpose Vehicles (SPVs)

Harbour Quays A1 Limited, Harbour Quays D4 Limited and Harbour Quays F1F2 Limited (the SPVs) as joint ventures of the Group although the SPVs are wholly owned by CentrePort Properties Limited, a subsidiary of the Parent. The SPVs have issued mandatory convertible notes to the Accident Compensation Corporation (ACC). These notes provide the ACC with joint control over the

SPVs. The SPVs are therefore joint ventures of the Group.

(c) Basis of consolidation

The Group financial statements include WRC Holdings Ltd and its subsidiaries. Control is achieved when the Parent is exposed, or has rights, to variance returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent controls an investee if and only if the Parent has all of the following:

- power over the investee (i.e. existing rights that give it the current ability to direct and relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Parent company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Other facts that are considered include:

- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts or circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time the decisions need to be made, including voting patterns at previous shareholders' meetings.
- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of other vote holders;

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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).

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.

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 IPSAS 26 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 IPSAS 26 Impairment of Cash Generating 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 IPSAS 26 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.

(d) Statement of Cash Flows

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

(i) Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within cash.

(ii) 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.

(iii) 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.

(iv) Operating activities include all transactions and other events that are not investing or financing activities.

(v) Goods and Services Tax (GST) is accounted for on an accruals basis consistent with the Statement of comprehensive income.

(e) Revenue recognition

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.

(i) Rendering of services

Revenues from services are recognised in the accounting period in which the services have been rendered.

(ii) Rental Income

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

(iii) Dividend and Interest Revenue

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.

(f) Property, Plant and Equipment

The Group has eight classes of Property, Plant and Equipment

Operational port 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 is stated at valuation determined every three years by an independent registered valuer. This class of asset was revalued in December 2013. 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 the statement of comprehensive income, in which case the increase is credited to the 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 port operational land.

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.

Greater Wellington Rail public transport rail station infrastructural assets and its Ganz Mavag rolling stock were valued by Bayleys at depreciated replacement cost at 30 June 2014.

There is no depreciation on capital works in progress and on 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	10 to 50 years
Wharves and paving	10 to 50 years
Cranes and floating plant	4 to 30 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.

(g) 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 three classes of investment properties:

- Developed Investment Properties
- Land Available for Development
- Investment Property Under Development

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

(h) 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 relate to subleases of properties (excluding land) leased 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 clauses. An operating lease relating to land has a term of 125 years. The lessee does not have an option to purchase the property or land at

expiry of the lease period.

Lease incentive

In the event that lease incentives are provided to lessees to enter into operating leases, such incentives are recognised a reduction of rental income on a straight line basis.

(i) Assets held for sale

Assets are classified as held for sale if it is 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.

(j) 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.

(k) 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.

Cash generating assets are assets that are held with the primary objective of generating a commercial return. Non cash generating assets are assets other than cash generating assets.

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 assets is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) 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.

(m) Investments in subsidiaries and associates

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.

(n) 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 3 months or less.

(o) 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.

(p) Income tax

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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

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.

(q) 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.

(r) 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.

(s) 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.

(t) Provision for dividends

Dividends are recognised in the period that they are authorised and approved.

(u) Financial Assets and Liabilities

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, 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.

Financial assets

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

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.

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.

(i) 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.

(ii) 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 liabilities.

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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

(v) Derivative Financial Instruments classified at Fair Value through the Statement of Comprehensive Income

Derivative Financial Instruments classified at Fair Value through the Statement of Comprehensive Income

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 agreements.

Derivatives are initially recognised fair value on the day a derivative contract is entered in to 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 the statement of comprehensive income.

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

(w) 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.

(x) Standards, amendments, and interpretations effective in the current period

Management has reviewed the Standards and Interpretations that became mandatory in 2014/15 year, and has determined that they have no material effect on the results and position of the Group.

7.6 Assumptions in preparing the prospective financial statements

The prospective financial statements information contained in this SOI is based on assumptions that WRC Holding Group could reasonable expected 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.

- 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 3.0% for the 2016/17 year and 3.10% and 3.30% 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.
- The timing of capital expenditures can vary and consequently the subsequent equity contribution from the Council will also alter as it funds the expenditures.

7.7 Issues Facing the Group

7.8 CentrePort Limited

Economy

Moderate economic growth is forecast for New Zealand in the forecast period FY17-19 driven mainly by domestic demand especially in urban housing.

Key economic forecasts (3) for NZ in the forecast period are:

³ Treasury NZ Economic Update April 2015

March years	2015A	2016f	2017f	2018f	2019f
NZ GDP growth (Production)	3.2%	2.1%	2.4%	3.6%	3.0%
CPI Annual Inflation	0.3%	1.4%	2.1%	1.9%	2.1%

Global GDP growth is expected to be weaker over the forecast period and in our major trading partners of Australia and China. China's GDP has fallen below 7.0%, lower than historical rates. Volume exports to China are expected to continue to increase in agricultural and forestry products albeit at lower commodity prices.

CentrePort is well positioned to meet growth in global demand for NZ's exports in these sectors through its investment in transport services across central New Zealand and its on port and harbour investment program.

CentrePort is also active in the Commercial Property sector owning and leasing a range of commercial properties located in the Harbour Quays precinct adjacent to the Port. This operates as a supporting investment to generate cashflow for Port investment and grow shareholder value.

CentrePort Properties Limited is progressing plans to continue to develop Harbour Quays, enhancing connection with Wellington's waterfront and adding further amenities for the benefit of the city.

Financial Forecasts

Following 9% revenue growth in 2015, CentrePort Limited is forecasting annual revenue growth averaging close 9.5% p.a. in the forecast years 2017-19 from Port Operations. This is from continuing growth in log exports and containers trade through the Port and supported by stable trade across the rest of its diverse portfolio.

Property revenues are forecast to grow at 12% p.a. during this period from increased rental income in the Harbour Quays precinct.

CentrePort's consolidated underlying net profit after tax ('NPAT') (excluding the after tax effect of earthquake related items and fair value adjustments on financial instruments and investment properties) is forecast to grow an average of \$1.1m per annum from \$13.7m in 2016 to \$16.7m in 2019.

The 2017-19 forecasts have provided for an indicative dividend calculated at 45% of underlying NPAT. In declaring the dividend to be paid each year, the Directors will take into account the financial health of the business and will consider the company's gearing and compliance with banking covenants.

Capital Expenditure

CentrePort Group's capital expenditure forecasts for 2017-19 reflects development of Port land for growth including Kaiwharawhara Point; deepening the shipping channel; enhancement of ferry terminals and maintenance of the Port and commercial property developments designed to build amenity and connect with the Wellington Waterfront and enhance the value of existing investments.

Gearing (debt to debt plus equity) remains within target levels (<40%).

7.9 Greater Wellington Rail Limited

The current issues facing GWRL are:

- Commissioning the final Matangi 2 units into service and closing out any commercial issues
- Completing the final Matangi modification and warranty programmes;
- Supporting Transdev and Hyundai-Rotem through the initial operational and final transitional phases of the new Rail Partnering Contract;
- Continuing the rail fixed infrastructure improvement programme and managing the seismic risk identified in specific pedestrian bridges and subways;
- Managing the continued demand for additional capacity at key park and ride sites within limited budgets and land supply.

7.10 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 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 received from CentrePort and the level of interest cost to service the loan.

8. 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 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. The forecast dividend is \$6.5, \$7.1 and \$7.6 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). The target dividend pay-out ratio reflects free cash-flow after providing for capital expenditure plans and the Board's gearing targets.

The current plan has the pay-out ratio at 45%.

In terms of the remainder of the WRC 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

9. 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 8 times per year 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.

10. Procedures for the Purchase and Acquisition of Shares

- 10.1** The Boards of WRC Holdings, PIL, 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. (N.B: CentrePort is governed by a separate constitution.)

- 10.2** 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.

11. Compensation

- 11.1** 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.

- 11.2** 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.

12. Value of Shareholder's Investment

- 12.1** The valuation of investments will be undertaken as may be required from time to time by the directors or shareholders.