wrc
holdings group

WRC Holdings Group Statement of Intent

(Covering the years to 30 June 2015, 2016 and 2017)

WGN DOCS #1372667

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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 (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 and produce an appropriate return to shareholders and ensure an appropriate debt/equity ratio.
- To separate the Regional Council's commercial assets from its public good assets, where appropriate[1].
- 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 the Regional Council's strategic vision; operate successful, sustainable and responsible businesses.

b) Manage its assets prudently.

[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.

c) Where appropriate, provide a commercial return to shareholders.

d) Adopt policies that prudently manage risks and protect the investment of its shareholders.

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

PHL owns and operates the Regional Council Centre at 142-146 Wakefield Street, Wellington. The building is currently vacant and is earthquake prone. A decision on its future has been postposed pending the Regional Council clearing out the building.

Pringle House will be held until it is deemed to be surplus to GWRC requirements. However, as part of the eight year financial plan this SOI assumes the building will be placed on the market and sold by 30 June 2015. The price at which it is sold at is lower than the present book value and is an arbitrary figure such that equity is reduced to zero. This is after sale with all assets and liabilities liquidated.

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
48 - 2 Car Matangi units
27 - 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
13 – 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 from the Regional Council 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 the 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 the Regional Council directly and is delivered via separate maintenance and operating contracts with KiwiRail.

The Regional Council has budgeted expenditure of $170 million over the next three years to replace the Ganz Mavag units with a second tranche of 35 Matangi units. This also includes and upgrade to some components of the existing Matangi to realise whole of life savings and improve the operational efficiency and safety.

These 35 new Matangi units are expected to be 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 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. It is also planned to continue with the $1.5 million spend on security enhancements to protect infrastructure and rolling stock assets from vandalism and tagging leading to lower risk and 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.

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		
	2014/15	**2015/16**	**2016/17**
Dividend distribution $ 000s	2,275	2,325	2,463
Dividend distribution %	100%	100%	100%
Return on equity (1)	3.7%	1.4%	1.1%
Return on assets (2)	6.0%	3.4%	3.4%

(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

4.1.3 Pringle House Limited

Operational performance targets

(a) Minimise on-going running costs

(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 expenses are within budget.

4.1.4 Greater Wellington Rail Limited

Operational performance targets

(a) From Annual Plan 2014-2015

- (i) Percentage of the required fleet that is available to operate scheduled services – 99.3%
- (ii) Average condition ratings for buildings and structures – 2.6/5.0*
- (iii) Average condition rating for car parks – 2.4/5.0

(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 – 30,000 km
- (iii) MDBF Ganz fleet – 8,500 km
- (iv) MDBF carriage fleet – 40,000 km

(c) Other measurable targets

- (i) Deliver the second tranche of Matangi trains and M1 retrofit programme in accordance with the supply contract.
- (ii) Deliver train maintenance services within approved budgets through a contract with KiwiRail ensuring that train availability and reliability targets are met.
- (iii) Deliver infrastructure cleaning, maintenance and security services within approved budgets through various contracts ensuring asset condition does not deteriorate.
- (iv) Implement year three of the five year renewals and like for like replacement programme in accordance with the asset investment priority framework.
- (v) 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 very good and 5 being very poor.

Financial performance targets

	Greater Wellington Rail Limited		
	2014/15	**2015/16**	**2016/17**
Dividend distribution $ 000s	-	-	-
Dividend distribution %	-	-	-
Return on equity (1)	(5.4%)	(4.7%)	(4.6%)
Return on assets (2)	(4.2%)	(3.9%)	(3.9%)

(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

4.1.5 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		
	2014/15	**2015/16**	**2016/17**
Dividend distribution $ 000s	2,375	2,506	2,647
Dividend distribution %	100.0%	100.0%	100.0%
Return on equity (1)	91.4%	96.4%	101.8%
Return on assets (2)	8.8%	9.5%	10.1%

(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

From CentrePort's 2014/15 – 2016/17 Statement of Intent (SOI).

SOI 3 year - Financial Performance measures

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

Measure		Outlook FY14	Forecast FY15	Forecast FY16	Forecast FY17
Group EBIT plus JV & Associate Earnings ('Group EBIT')	$m	22.6	24.0	25.4	27.0
Port EBIT plus JV & Associate Earnings ('Port EBIT')	$m	14.7	14.5	17.1	18.1
Property EBIT plus JV & Associate Earnings ('Property EBIT')	$m	7.9	7.5	7.4	7.4
Underlying Net Profit Before Tax & EQ related Items	$m	14.3	15.0	16.1	17.5
Underlying Net Profit After Tax & Before EQ related Items ('Underlying NPAT')	$m	12.2	13.0	13.6	14.6
Dividend	$m	2.5	5.6	6.1	6.5
Shareholders' Funds ('Equity) or Net Assets	$m	197.7	206.1	214.7	223.9
Number of issued shares	000	23,425	23,425	23,425	23,425
Group EBIT Return on Total Assets	%	6.7%	6.9%	7.1%	7.3%
Port EBIT Return on Port Assets	%	7.7%	7.5%	8.2%	8.1%
Property EBIT Return on Property Assets	%	5.4%	5.0%	5.1%	5.2%
Underlying NPAT Return on Group Equity	%	6.1%	6.5%	6.5%	6.6%
Dividend Distribution as a %ge of Underlying NPAT	%	20%	43%	45%	45%
Underlying earnings (NPAT) per share	$	0.52	0.56	0.58	0.62
Dividend per share	$	0.11	0.24	0.26	0.28
Net Asset backing per share	$	8.44	8.80	9.16	9.56

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.

SOI - 3 year - Financial Health measures

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

Financial Health	Target	Outlook FY14	Forecast FY15	Forecast FY16	Forecast FY17
Current Assets ($m)	n/a	13.2	9.6	9.6	9.8
Current Liabilities ($m)	n/a	9.4	12.5	12.8	13.0
Total Assets ($m)	n/a	334.9	348.6	358.7	369.1
Shareholders Funds - Equity($m)	n/a	197.7	206.1	214.7	223.9
Debt ($m)	n/a	126.6	128.4	129.1	129.8
Equity Ratio	> 45%	59%	59%	60%	61%
Gearing	< 50%	40%	39%	38%	37%
Interest cover	> 2.5 times	3.1 times	2.9 times	3.5 times	3.6 times
Solvency Ratio	> 0.6	1.40	0.77	0.75	0.76

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 performance targets

a) Year on year improvement towards zero harm.

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 and Plan.

d) Undertake risk assessments and implement any mitigating procedures relating to the Port & Harbour Safety Code which promotes safety and excellence in marine operations.

e) Maintain compliance with international Ship & Port Security (ISPS) Code which promotes security against terrorism within the port environment

Environmental performance targets

a) Develop and maintain a formal environmental risk 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, including the monitoring of environmental discharges in accordance with implemented management plans in the areas of .

   i. Port Noise

   ii. Stormwater discharges to the Coastal Marine Area

   iii. Fumigants associated with the pest treatment of cargoes, including the introduction of recapture technology for containerised cargo during 2014.

c) Maintain a sustainability programme with measurable performance criteria covering, as a minimum, the monitoring of waste and greenhouse gas emissions

d) Maintain the requirement for fumigation contractors to use recapture technology for the fumigation of containers

e) Monitor compliance by contractors for the fumigation of log shipments in line with the Environmental Protection Agency policies. Continue to review the availability of recognised alternative fumigation options.

f) Maintain a register of environmental risks and incidents 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) Develop appropriate and useful measures to monitor CentrePort's carbon footprint.

h) CentrePort Ltd will hold a minimum of three Environmental Consultative Committee meetings in 2014/15 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.

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 and engaging community activities.

   iv. To meet regularly with representative community groups

General performance targets

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 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 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

Statement of intent (SOI)

Year ended 30 June	2014/15	2015/16	2016/17
$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
Prospective statement of comprehensive income			
Dividends & Equity Earnings	7,121	7,077	7,016
Grant from GWRC - Operating	14,640	15,442	14,542
Rental income	7,161	6,771	8,629
Interest income	173	261	278
Other revenue	68,465	74,098	80,421
Total revenue	97,560	103,648	110,886
Interest expense	10,933	11,561	11,980
Depreciation	21,260	22,861	25,186
Other expenditure	66,940	71,317	76,498
Revaluation (upward)	(1,589)	(1,130)	(1,130)
Total expenditure	97,544	104,609	112,534
Surplus/(deficit) before tax	**16**	**(961)**	**(1,648)**
Taxation expense (credit)	(2,098)	(1,929)	(2,058)
Total comprehensive income (NPAT)	**2,114**	**968**	**410**
Total comprehensive applicable to non-controlling interest	3,231	3,398	3,620
Total comprehensive income applicable to parent	**(1,117)**	**(2,430)**	**(3,210)**

7.2 Prospective statement of financial position

As at 30 June $000	2014/15 WRCH GROUP	2015/16 WRCH GROUP	2016/17 WRCH GROUP
Prospective statement of financial position			
Opening equity	407,855	453,836	559,116
Opening equity non controling interests	(45,614)	(47,553)	(49,543)
New equity	47,433	108,045	18,688
Total comprehensive income appliciable to parent	(1,117)	(2,430)	(3,210)
	408,558	511,898	525,051
Dividends distributed	(2,275)	(2,325)	(2,463)
Closing Equity Non-controlling interest	47,553	49,543	51,663
Closing equity	**453,836**	**559,116**	**574,251**
Equity applicable to parent	406,283	509,573	522,588
Non-controlling interest	47,553	49,543	51,663
Closing equity	**453,836**	**559,116**	**574,251**
Current assets	37,362	37,632	38,253
Non current assets	594,464	697,387	708,997
Investments	84,917	84,251	83,734
Total assets	**716,743**	**819,270**	**830,984**
Current liabilities	21,075	21,695	22,116
Borrow ings	123,776	125,995	128,273
Non currrent liabilities	118,056	112,463	106,344
Total liabilities	**262,907**	**260,154**	**256,733**
Net assets	**453,836**	**559,116**	**574,251**

7.3 Prospective statement of changes in equity

As at 30 June $000	2014/15 WRCH GROUP	2015/16 WRCH GROUP	2016/17 WRCH GROUP
Prospective statement of changes in equity			
Opening equity	407,855	453,836	559,116
Shares to be issued during the year	47,433	108,045	18,688
Total comprehensive income for the year	2,114	968	410
Dividend to be paid - Equity holders	(2,275)	(2,325)	(2,463)
Dividend to be paid - Non controlling Interests	(1,292)	(1,408)	(1,500)
Closing Equity	**453,836**	**559,116**	**574,251**
Total comprehensive income attributed to:			
Equity holders - Parent	(1,117)	(2,430)	(3,210)
Non - controlling interest	3,231	3,398	3,620
Total comprehensive income for the year	**2,114**	**968**	**410**

7.4 Prospective statement of cash flows

Year ended 30 June	**2014/15**	**2015/16**	**2016/17**
$000	**WRCH GROUP**	**WRCH GROUP**	**WRCH GROUP**
Prospective statement of cashflow			
Cashflows from operations			
Receips from operations	90,197	96,349	103,630
Interest received	75	87	92
Dividends received	3,697	7,743	7,533
Payments to suppliers/employees	(67,514)	(71,909)	(76,872)
Taxes paid	(1,296)	(1,921)	(2,417)
Interest paid	(10,793)	(11,420)	(11,839)
Net cash from operating activities	14,366	18,929	20,127
Cashflow from investing activities			
Purchase shares	(47,433)	(108,045)	(18,688)
Purchase of Fixed Assets - Port	(19,512)	(23,135)	(16,997)
Purchase of Fixed Assets - Property	(3,843)	(5,311)	(3,687)
Proceeds sale of Property	2,500	11,039	2,672
Net cash from investing activities	(67,288)	(125,452)	(36,700)
Cashflows from financing activities			
Borrow ings	6,212	2,219	2,278
Dividends paid	316	(1,350)	(1,504)
Issue of shares	47,433	108,045	18,688
Current Acccount movement	(361)	(2,385)	(2,553)
Net cash from financing activities	53,600	106,529	16,909
Net increase/(decrease) in cash & cash eqvts	678	6	336
Cash & cash equivalents at beginning of the year	1,655	2,333	2,339
Cash and cash equivalents at year end	**2,333**	**2,339**	**2,675**

7.5 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. Rental income increases markedly in 2016/17 and is due to the 35 new Matangi trains beginning to earn rent. This rent is paid by the operator and charged back to Council, it is required to be done this way to correctly account for the use of the assets from a taxation perspective.

Interest expense increases due to higher levels of debt in CentrePort and higher interest costs in WRCH on the $44 million of debt.

The depreciation increases as CentrePort increases its capex programme and as the 35 new Matangi trains coming into service.

The other expenditure increase is driven mainly by CentrePort and relates to the revenue increases, and to a lesser extent by rising cost from GWRL.

The revaluations predominately relate to CentrePort revaluing their derivatives from previous devaluations as they are used. The higher level in 2014/15 relates to the assumed hypothetical profit on sale over existing valuation of the Regional Council Centre.

The credit from tax refers to the movement (reduction) in deferred tax emanating from GWRL offset by a taxation charge from CentrePort.

Equity increases by $167 million over the period, and is due to $175 million of new equity injections from the Regional Council into WRC Holdings to fund the purchase of GWRL assets. This is offset by $34 million of losses from GWRL emanating predominately from the depreciation as it is not funded, plus CentrePort is forecasting to improving its equity position by around $26 million.

The low profitability in 2014/15 is driven by a $10.4 million loss in GWRL (depreciation not funded) and is offset by the profit from CentrePort. A similar pattern follows in the two other years.

Note the depreciation from GWRL amounting to $14.6 million, $15.9 million and $17.8 million for the three forecasted years respectively is adversely impacting 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 the 35 new Matangi trains is not generating a return.

Performance targets

	2014/15 ($000)	2015/16 ($000)	2016/17 ($000)
Surplus before tax	16	(961)	(1,648)
Surplus after tax	2,114	968	410
Earnings before interest, tax and depreciation.	32,209	33,461	35,518
Return on total assets	1.6%	1.4%	1.3%
Return on shareholder equity	(0.3%)	(0.5%)	(0.6%)
Shareholders equity to total assets	55.7%	59.6%	62.5%
Dividends	2,275	2,325	2,463

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.

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 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.

The accounting policies set out below have been applied in preparing these prospective financial statements presented in this Statement of Intent

These prospective financial statements contain no actual operating results but are based upon a starting position of 30 June 2013 utilising audited accounts for that year.

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 the Greater Wellington Regional Council in June. The next planned update of the prospective financial statements is the 2015/18 Statement of Intent.

Application of New and Revised International Financial Reporting Standards (IFRSs)

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures were issued including NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosures of Interests in Other Entities, NZ IAS 27 (as revised in 2011) Separate Financial Statements, and NZ IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. In the comparative year, the Group has applied these five standards in advance of their effective dates (annual periods beginning on or after 1 January 2013). The impact of the early application of these standards is set out below.

Impact of the Application of NZ IFRS 10

NZ IFRS 10 replaces the parts of NZ IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation Special Purpose Entities. NZ IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in NZ IFRS 10, all of the three criteria, including (a) an investor has power over the investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns, must be met. Previously control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

As CentrePort Limited wholly owns CentrePort Properties Limited and CentrePort Properties Management Limited (formerly Central Stevedoring Limited), the directors concluded that the Group has had control over these entities since their incorporation and are therefore correctly treated as subsidiaries.

CentrePort Properties Limited is the sole shareholder of three special purpose vehicles. These investments are treated as joint ventures rather than wholly owned subsidiaries due to the rights associated with securities issued by these companies.

Impact of the Application of NZ IFRS 11

NZ IFRS 11 replaces NZ IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities Non Monetary Contributions by Ventures. NZ IFRS 11 deals with how a joint arrangement of which two or more parties have joint

control should be classified. Under NZ IFRS 11, there are only two types of joint arrangements joint operations and joint ventures. The classification of joint arrangements under NZ IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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 arrangement. Previously, NZ IAS 31 Interest in Joint Ventures had three types of joint arrangements jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under NZ IAS 31 was primarily determined based on the legal form of the arrangement.

The subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method. Investments in joint operations are accounted for such that each joint operator recognises and measures the assets and liabilities in relation to its interest in the arrangement in accordance with the applicable Standards.

Upon the application of NZ IFRS 11, the Directors reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Groups investments in joint arrangements. After assessment, the Directors concluded that the application of NZ IFRS 11 has not changed the classification and subsequent accounting of the Group's investment in existing joint arrangements. The Directors also assessed the application of NZ IFRS 11 with respect to the three special purpose vehicles wholly owned by a subsidiary of the Parent. Due to the contractual arrangement with the Accident Compensation Corporation (ACC) and the issue of mandatory convertible notes, the Directors concluded that the special purpose vehicles should be classified and treated as joint ventures and equity accounted at 100%.

Impact of the Application of NZ IFRS 12

NZ IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of NZ IFRS 12 has resulted in more extensive disclosures in these consolidated financial statements.

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:

(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 re valued to fair value at 30 June 2010. Investment Property has been re valued to fair value at 30 June 2013.

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)

describes 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 is 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 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 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.

(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

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 re-valued in 2010. 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 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.

GW Rail Public Transport rail station infrastructural assets were valued by Bayleys at depreciated replacement cost at 30 June 2011. GW Rail Ganz Mavag rolling stock were valued by Halcrow at depreciated replacement cost at 30 June 2011.

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 is 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.

If the recoverable amount off 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.

(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.

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.

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. The policy for these items is outlined in note 2(v).

(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 liability

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

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 the statement of comprehensive income.

Cash settlement of derivatives adjust 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.

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 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 4.37% for the 2014/15 year and 5.1% and 5.5% for the next two years respectively after all margin costs. Interest rate hedging is in place 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 purchase of the second tranche of Matangi units and the subsequent equity contribution from the Council to pay for these is subject to variation in the timing of delivery of the trains by Hyundai-Rotem.

- The Regional Council Centre is assumed to be sold by June 2015. 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. That the Council will provide financial support to meet on-going costs. These are recorded as rental in the financial statements of PHL.

8. Issues Facing the Group

8.1 CentrePort - The Economy

Strong economic growth is forecast for New Zealand in the early part of the forecast period 2015-17 driven primarily by the Christchurch rebuild, rising house prices and strong dairy earnings. The global economy is in recovery following the 2008 Global Financial Crisis ('GFC'). China, NZ's main trading partner with Australia, is forecast to continue its growth rates above 7.0% over the forecast period.

Rising global economic growth is likely to lead to rising interest rates indicated recently by the US Federal Reserve Bank's announcement to commencement tapering of its quantitative easing program. Consequently interest rates in NZ are forecast to grow following an expected lifting in the Official Cash Rate by the NZ Reserve Bank in 2014.

Key economic forecasts (2) for NZ in the forecast period are:

March years	2014	2015	2013-2017 (Average)
NZ GDP (% annual growth)	3.2%	4.1%	3.0%
CPI Inflation (% annual)	1.4%	1.8%	1.8%

CentrePort is well positioned to benefit from forecast stronger economic growth with increasing container trade and log exports.

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

The commercial property market in Wellington has been significantly impacted by the seismic rating requirements put in place following the Christchurch earthquakes with many buildings not meeting minimum earthquake standards.

Earthquake response

The earthquakes of 20 July and 16 August 2013 centred in the Cook Strait had the following impacts on CentrePort's assets:

[2] Westpac Economic Overview February 2014

- The south seawall and land in the immediate vicinity fell into the sea requiring a new seawall to be built. The rebuilding of the seawall is currently underway and is expected to be completed later in the calendar year 2014.

- While Port resumed operations immediately after the events, repairs to cracking and undulations of pavements and infrastructure were required and are currently underway.

- A key tenant, BNZ, vacated its tenanted premises for a period of 6 months while repairs were made to the internal fit out of these premises and ceilings were upgraded to meet the current building code. This has resulted in a temporary loss of income from the entity which owns the BNZ tenanted property (Harbour Quays F1F2 Limited) in 2013/14 reducing operating cash flow.

- CentrePort has a number of properties requiring earthquake strengthening or demolition and will undertake either earthquake strengthening or demolition of these properties over the next 1-2 years. This has not affected the portfolio of premium properties located in Harbour Quays.

Financial Forecasts – CentrePort

CentrePort Limited is forecasting annual revenue growth averaging 5% p.a. in the forecast years 2015-17 from Port Operations. This is from continuing growth in log exports and containers trade through the Port.

Property revenues are forecast to be flat during this period.

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 $1.0m per annum from $12.2m in 2014 to $14.6m in 2017.

The 2015-17 forecasts have assumed a dividend of 45% of underlying NPAT will be paid to the shareholders annually. This is within the targeted range of 40% to 60%. 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 Structure– CentrePort

CentrePort Group's capital expenditure forecasts for 2015-17 reflects earthquake repairs and continued building strengthening, development of Port lands for growth plus upgrade and maintenance of the Port. While capital expenditure is forecast to be at levels higher than previous years, gearing remains within target levels.

8.2 Pringle House Limited

The major issues facing Pringle House are:

- The Regional Council Centre (RCC) is earthquake prone. 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.
- The Council has vacated the premise and no longer wishes to pay rent.
- The Council's lease of the RCC is until 2019. The lease will be terminated early, which has significantly impaired the value of the premise.
- There are on-going holding costs prior to the RCC be sold, which will be met by the Council.

8.3 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
- Disposing of the non-operational Ganz Mavags
- Going to the market to procure performance based operate and maintain rail services for 2016

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

CentrePort has indicated a $2.5 million dividend for the 2013/14 year in their SOI. This compares to last year's SOI forecast of $4.95 million. This reduced dividend is just sufficient to cover interest on the $44 million loan.

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

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 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. Dividend levels will be reviewed by the Board each year, and agreed with the shareholder. The forecast dividend for the 3 years is $5.6, $6.1 and $6.5 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 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. 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 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.)

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 $9,400 which will be reviewed from time to time. 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 and reviewed by the Council from time to time.

12.2 The WRCH Group of companies will seek compensation by agreement from the 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.