

Statement of Intent

WRC HOLDINGS

For the year ending 30 June 2021

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1. Introduction

WRC Holdings (Holdings) is a Council-Controlled Trading Organisation owned by Greater Wellington Regional Council (Council). It was established to manage council's commercial investments.

This Statement of Intent (SOI) is prepared in accordance with Section 64 and Schedule 8 of the Local Government Act 2002.

The SOI sets out the performance measures, targets, objectives and activities of Holdings and forms the major part of the companies' accountability relationship with its shareholder, Wellington Regional Council.

Council issued a Statement of Expectations to Holdings in January 2020 as prescribed in section 64b of the Local Government Act 2002. This statement has been taken into account when completing the SOI.

2. Objectives of the Group

The primary objective of Holdings is to support Council's strategic vision and operate a successful, sustainable and responsible business while managing its assets prudently. This is achieved by separating Council's investment and commercial assets from its public good assets.

The core role of Holdings is to impose commercial discipline on the Group's activities and produce a commercial rate of return (where appropriate) and manage within agreed levels of debt to equity.

Holdings provides a structure that allows independent external directors with commercial backgrounds to provide advice and expertise at the governance level.

3. Governance

Holdings is governed by a board of seven directors all of whom are appointed by the shareholder, Wellington Regional Council. Council has a policy on the appointment and remuneration of directors as specified in Section 57 of the Local Government Act 2002. All remuneration is set by Council. Holdings provides directors and officer’s liability insurance cover at its own expense.

The Holdings Board meets regularly to conduct the business of the organisation. Holdings reports on its activities to the shareholder through formal quarterly reports, annual reports and through the SOI process. The Holdings structure at 01 July 2020 is illustrated in Figure 1.

In December 2018 a strategic review of the governance arrangements between Council, WRC Holdings and CentrePort was completed. This report and its recommendations have supported several work streams for the board.

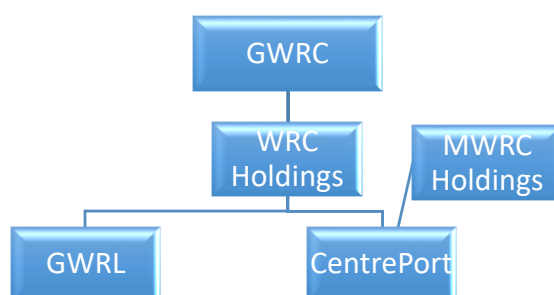


Figure 1

a. Greater Wellington Rail Limited

Council also approves the directors of Greater Wellington Rail Limited (GWRL), who are appointed by special resolution of WRC Holdings. Holdings and Council share the same directors.

b. CentrePort Limited

Holdings own 76.9% of the shareholding in CentrePort Limited. These shares had previously been held by Port Investments Limited which was amalgamated into Holdings on 31 March 2020.

All CentrePort directors are independent and external of Council. CentrePort directors are appointed in accordance with the Ports Companies Act and the company constitution.

4. Health, Safety and Wellbeing

Holdings has developed a Health, Safety and Wellbeing board work programme for the 2020/21 year that focuses on directors understanding their duties under the Health and Safety at Work Act 2015, and being able to discharge their responsibilities. This work will be reported on during the year.

5. COVID-19

The COVID-19 pandemic has created a high level of disruption in the operations of Holdings investments. The GWRL rail operations may continue to be impacted by changes in patterns of travel. While these travel patterns may disrupt immediate passenger volumes there is no short-term change to the GWRL asset base. If there is a continued pattern of reduced or changed behaviour this may have a longer-term impact on the asset renewals and replacements.

CentrePort's core services have been impacted by the closure of international borders, the impact on the cruise industry and the changing demand on freight flows. The potential economic downturn and a longer term set of restrictions on international borders may have a significant effect on CentrePort's activities.

The board remains vigilant to the impact of COVID-19 and will work closely with Council on any impacts and effects that arise through the year.

6. CentrePort Regeneration

The plans for the development and regeneration of the port continue to be developed and are not reflected in either this document or the CentrePort Statement of Corporate Intent. Reporting on the regeneration and decisions requiring shareholder approval will be communicated through the year.

7. Reporting Framework

The Holdings Board will provide quarterly reports to Council, which will include reporting against the performance measures, a summary of the activities and a strategic overview of the coming quarter for the board.

The board will in addition provide statutory reporting to the board including the delivery of a half-yearly report by 28 February 2021, an annual report for the year by 30 September 2022 and a draft Statement of Intent by 01 March 2021.

The board will continue to report on matters that arise outside of these reporting timeframes on the basis of no-surprises.

8. Statement of Strategic Intent

In responding to the challenge of the port regeneration and developing responses to the governance of the group, highlighted by the Boardworks report, WRC Holdings has created a Statement of Strategic Intent with regards to the Port. This was developed in late 2019 and provides five key strategic elements for WRC holdings when considering the activity and performance of the port.

Objective area	Intent
Strategic	Secure Port Development As Enabler of Regional Economic Growth
Strategic	Strategic Asset to Promote Community Benefits
Financial	Optimise Return on Council Capital
Financial	Secure Capital for Port Investment and Future Growth
Strategic	Deliver Open Access to Service Operations to all Port Users and Other Stakeholders

9. Nature and Scope of Activities

a. WRC Holdings

WRC Holdings is the holding company for investment in GWRL and CentrePort. CentrePort produces a Statement of Corporate Intent as required under by the Ports Companies Act 1988. CentrePort's activities include the ownership and operation of port infrastructure, shipping and logistical services and operational services related to the port facility. WRC Holdings monitors the performance of CentrePort through regular reporting and presentations. WRC Holdings appoints and approves the board members and has issued its own Statement of Expectations to CentrePort for the 2020/21 year.

b. CentrePort

CentrePort is at the heart of New Zealand's freight and transport system and is a key strategic asset for central New Zealand. It facilitates economic growth and trade throughout the region. Ensuring the port is sustainable and recognising our part in the guardianship of Wellington Harbour (Te Whanganui a Tara) are major drivers for our activities and will continue to be as CentrePort looks to the future in its Regeneration Plan.

CentrePort's Regeneration Plan is central to the way it conducts its business. We aim to deliver a 21st century logistics asset that benefits the economy and connects with the city and the region.

c. GWRL

GWRL is responsible for asset management, procurement and stewardship through a management contract with GWRC. Operational delivery of the service is the responsibility of GWRC via a long term performance based contract with Transdev Wellington.

GWRL owns the investment on metro rail assets. These include the following rolling stock and infrastructure assets:

Rolling Stock

- 18 SW Carriages
- 6 SE Carriages
- 1 AG Luggage Van
- 2 Remote controlled electric Shunt crabs
- 83 2 Car Matangi units
- 1 Matangi driving simulator.

Infrastructure Assets

- Thorndon electric multiple unit (EMU) depot and EMU train wash Metro wheel lathe and building
- 48 Railway stations
- 14 Pedestrian over-bridges
- 11 Pedestrian underpasses
- A range of carparks, station improvements and ancillary rail related assets.

<u>Key Activities & Initiatives</u>	
Maintenance	Deliver train maintenance services, within approved budgets, through an operations and maintenance contract, while ensuring that train condition and performance is maintained throughout the assets life.
	Deliver rail station infrastructure cleaning and maintenance, within approved budgets, through various contracts ensuring asset condition does not deteriorate.
Renewal	Deliver rolling stock heavy maintenance renewals, within approved budgets, through an operations and maintenance contract, while ensuring that train availability and reliability targets are met.
	Deliver rail infrastructure asset renewals and like-for-like replacement programme, to improve overall asset condition and performance, in accordance with the asset investment priority framework
Security	Continue to expand the installation of CCTV cameras across all Metlink Park & Ride facilities, and upgrade original analogue equipment.
Park & Ride	Expand Park & Ride capacity, in accordance with the Park and Ride Strategy Framework (currently being developed)
Seismic Strengthening	Undertake seismic strengthening works on a number of earthquake prone pedestrian foot bridges and subways, in accordance with the agreed risk profile
Signage	Commence installation of new station entrance signage, which includes an electronic sign to indicate if trains are replaced by buses.

10. Financial performance targets

WRC Holdings	2021	2022	2023
Dividend Distribution (\$000)	\$2,900	\$3,600	\$3,600
Dividend Distribution %	100%	100%	100%

11. Non-financial performance targets

Operational Performance Targets for GWRL are set within the context of councils Asset Management Plan and councils Long Term Plan. The performance indicators reflect the third year of the Long Term Plan.

Level of Service	Current	2020/21 Target	2021/22 Target	2022/23 Target
CUSTOMER SATISFACTION WITH RAIL ASSETS				
Percentage of passengers who are satisfied with their current trip	93%	≥92%	≥93%	≥93%
Percentage of customers who are satisfied with the cleanliness of the trains	95%	≥93%	≥93%	≥93%
Percentage of passengers who are satisfied with overall station	96%	≥91%	≥92%	≥92%
Percentage of passengers who are satisfied with the cleanliness of the station	90%	≥85%	≥90%	≥90%
Percentage of customers who feel safe while using the station facility	94%	≥89%	≥91%	≥91%
Percentage of passengers who are satisfied with the information at the station	89%	≥89%	≥91%	≥91%
ROLLING STOCK - ASSET MANAGEMENT				
Matangi - Mean distance between failure	41,870	≥40,000km	≥40,000km	≥40,000km
Carriage - Mean distance between failure	111,630	≥80,000km	≥80,000km	≥80,000km

Level of Service	Current	2020/21 Target	2021/22 Target	2022/23 Target
RAIL FIXED ASSET - ASSET MANAGEMENT				
Percentage of pedestrian bridges and subways which meet at least 67% of NBS earthquake rating	51%	64%	72%	72%
Percentage of stations with CCTV coverage	96%	98%	98%	98%
Average condition grade of:				
Station buildings and shelters:	2.5	≤2.5	≤2.5	≤2.5
Structures (pedestrian subways & bridges):	2.5	≤2.5	≤2.5	≤2.5
Park & Ride:	2.5	≤2.5	≤2.5	≤2.5
Percentage of assets in condition grade 4 (Poor) or worse				
Station buildings and shelters:	10%	6%	≤5%	≤5%
Structures (pedestrian subways & bridges):	12%	8%	6%	≤5%
Park & Ride:	29%	20%	15%	10%

12. Relationship with Mana Whenua

Holdings supports Councils wider relationship with mana whenua and recognises the importance of and contribution from mana whenua across the region. Through the investment in CentrePort the importance of the waterfront to mana whenua is also recognised and as part of the wider consultation on the regeneration will ensure specific input from mana whenua is achieved.

CentrePort continue to work at both a governance and operational level with mana whenua, both in the Wellington harbour region and in the areas where they operate regional hubs.

13. Carbon Neutrality

In 2019, CentrePort gained 'EnviroMark Gold' accreditation (now Toitū Envirocare Gold) and intend to achieve 'Toitū Envirocare Diamond' standard (ISO14001:2015 equivalent) over the next two years.

Council has committed to carbon neutrality by 2030 and Holdings will continue to work with Council officers and support the development of a carbon neutrality plan for CentrePort.

14. Financial Information

a. Shareholder Funds to Assets

2021	2022	2023
70.2%	70.4%	71.9%

b. Commercial Value

The commercial value of the shareholder investment in Holdings is considered by the Directors to be not less than the shareholder's funds as disclosed in the annual report.

14.1 Prospective statement of comprehensive income

Year ended 30 June	2020/21	2021/22	2022/23
\$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
Grant from GWRC - Operating	17,278	14,958	14,772
Rental income	6,357	6,452	6,555
Interest income	4,500	4,200	3,800
Other revenue	69,127	74,717	80,937
Total revenue	97,262	100,327	106,064
Interest expense	707	707	707
Depreciation & amortisation	29,716	32,590	34,013
Other expenditure	76,950	76,969	76,785
Total expenditure	106,665	109,559	110,798
Surplus/(deficit) before tax	(10,110)	(9,939)	(5,485)
Taxation expense (credit)	(2,540)	(1,910)	(1,098)
Total comprehensive income (NPAT)	(7,570)	(8,029)	(4,387)
Total comprehensive applicable to non-controlling interest	2,193	2,271	2,884
Total comprehensive income applicable to parent	(9,763)	(10,300)	(7,271)

14.2 Prospective statement of financial position

As at 30 June	2020/21	2021/22	2022/23
\$000	WRCH GROUP	WRCH GROUP	WRCH GROUP
Opening equity	815,315	820,480	825,872
Opening equity non-controlling interests	(98,826)	(99,864)	(100,751)
New equity	16,789	18,407	176,809
Total comprehensive income applicable to parent	(9,763)	(10,300)	(7,271)
	723,515	728,722	894,659
Final distribution from PIL to WRCHL			
Dividends distributed	(2,900)	(3,600)	(3,600)
Closing Equity Non-controlling interest	99,865	100,750	102,250
Closing equity	820,480	825,872	993,309
Equity applicable to parent	720,616	725,121	891,059
Non-controlling interest	99,864	100,751	102,250
Closing equity	820,480	825,872	993,309
Cash & cash equivalents	233,084	201,100	192,977
Current assets	19,850	20,390	20,965
Non-current assets	654,175	692,912	888,293
Investments	115,504	115,503	115,504
Total assets	1,022,613	1,029,905	1,217,740
Current liabilities	19,929	20,721	22,310
Borrowings	44,000	44,000	44,000
Non-current liabilities	138,205	139,313	158,121
Total liabilities	202,134	204,033	224,431
Net assets	820,479	825,872	993,309

14.3 Prospective statement of changes in equity

As at 30 June \$000	2020/21 WRCH GROUP	2021/22 WRCH GROUP	2022/23 WRCH GROUP
Opening equity	815,315	820,480	825,872
Shares to be issued during the year	16,789	18,407	176,809
Total comprehensive income for the year	(7,570)	(8,029)	(4,387)
Dividend to be paid - Equity holders	(2,900)	(3,600)	(3,600)
Dividend to be paid - Non controlling Interests	(1,154)	(1,385)	(1,385)
Closing Equity	820,480	825,872	993,309
Total comprehensive income attributed to:			
Equity holders - Parent	(9,763)	(10,300)	(7,271)
Non - controlling interest	2,193	2,271	2,884
Total comprehensive income for the year	(7,570)	(8,029)	(4,387)

14.4 Prospective statement of cash flow

Year ended 30 June \$000	2020/21 WRCH GROUP	2021/22 WRCH GROUP	2022/23 WRCH GROUP
Cash flows from operations			
Receipts from operations	115,163	118,008	126,399
Interest received	4,559	4,259	3,865
Payments to suppliers/employees	(97,329)	(99,729)	(101,465)
Taxes paid	(5,377)	(3,980)	(3,668)
Interest paid	(656)	(656)	(700)
Net cash from operating activities	16,359	17,902	24,430
Cash flows from investing activities			
Purchase of Fixed Assets - Rail	(16,789)	(18,407)	(176,809)
Development/EQ rebuild - Port and property	(51,213)	(52,919)	(52,587)
Net cash from investing activities	(68,002)	(71,326)	(229,396)
Cash flows from financing activities			
Borrowings	1,450	7,700	25,000
Dividends paid	(4,054)	(4,985)	(4,985)
Issue of shares	16,789	18,407	176,809
Current Account movement	(429)	318	20
Net cash from financing activities	13,756	21,440	196,844
Net increase/(decrease) in cash & cash equivalents	(37,887)	(31,984)	(8,122)
Cash & cash equivalents at beginning of the year	270,970	233,083	201,099
Cash and cash equivalents at year end	233,083	201,099	192,977

14.5 Financial Statements commentary

- The statement of comprehensive income (2020/2021- 2022/2023) shows deficits after tax relating to the profit from CentrePort being insufficient to offset the loss from GWRL. This is due to GWRL running a deficit as a result of depreciation not being funded.
- Interest income is declining as CentrePort runs down its cash from insurance proceeds and invest the funds in capital expenditure. This is also due to a prevailing low interest environment.
- The depreciation increases as both CentrePort and GWRL increase their rebuild and capex programmes respectively.
- The tax credit/income represents the difference between CentrePort paying tax and GWRL having a tax credit from deferred tax in GWRL.
- Equity increases by \$178 million over the period (2020/21 to 2022/23). This results from Council equity injections to fund GWRL capex of \$212 million. This is offset by the net of profits from CentrePort of \$32 million to GWRL deficits of \$49 million relating to its depreciation in the latter two years of the SOI and cumulated dividends paid of \$14 million.
- Capital expenditure for the Group is significant at \$369 million, mainly due to the Wairarapa Carriage Replacement project (\$177 million) commencing in 2022/23 and the Port rebuild \$157 million.
- The large and reducing cash balances at the foot of the statement of cash flows represent funds CentrePort has on deposit from its insurance proceeds which will be used to funds its capital expenditure programme.

14.6 Performance targets

Year ended 30 June \$000	2020/21 WRCH GROUP	2021/22 WRCH GROUP	2022/23 WRCH GROUP
Net profit before tax (NPBT)	(10,110)	(9,939)	(5,485)
Net profit after tax (NPAT)	(7,570)	(8,029)	(4,387)
Earnings before interest & tax & Depn	20,312	23,358	29,279
Return on average assets (EBIT) -Performance indicator	-0.9%	-0.9%	-0.4%
Return on shareholder equity (NPAT)	-1.1%	-1.1%	-0.5%
Shareholders equity/Total assets	70.2%	70.4%	71.9%
Dividend distribution	2,900	3,600	3,600

14.7 Statement of Accounting Policies

The financial statements are presented in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002 and New Zealand Generally Accepted Accounting Practices (NZ GAAP).

These prospective financial statements are presented in accordance with Tier 1 PBE Accounting Standards, and comply with PBE Standards.

The detailed accounting policies are available in our most recent annual report as published on Greater Wellington Regional Council website. Refer to:

<https://www.gw.govt.nz/assets/Democratic-Services/WRC-Holdings-accounts-2019.pdf>

14.8 Assumptions in preparing the prospective financial statements

The prospective financial statements information contained in this SOI is based on assumptions that WRC Holding Group could reasonably expect to occur in the future based on information that was current at the time this SOI was prepared. Actual results are likely to vary from the information presented and variations could be material.

- The debt interest rate assumption for the WRC Holdings excluding CentrePort Limited is 1.58% for the 2020/21 and 2021/22 years and 1.68% for the 2022/23 year 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. The borrowing margin is fixed till and is assumed to remain at this level going forward.
- There will be no changes to key legislation affecting the Group activities.
- Asset lives are in accordance with the Group's Accounting Policies.