

Statement of Intent

Quayside Holdings Limited and Subsidiaries

For the year to 30 June 2017



Table of Contents

Introduction	3
Terms	4
Objectives of the Group.....	6
Governance.....	7
Role and Appointment of the Board.....	7
Committees and Policies.....	7
Nature and Scope of Group Activities.....	8
Ratio of Shareholder Funds to Total Assets.....	8
Accounting Policies	9
Port Portfolio.....	9
Investment Portfolio	9
Infrastructure Portfolio	9
Commercial Ventures	10
Governance.....	10
Distribution to Shareholders.....	10
Distributions to Council.....	10
Distributions to PPS Holders	10
Reporting to Shareholders.....	11
Annual and Interim Financials	11
Group Updates.....	11
No Surprises	12
Acquisition and or Disposal of Shares and Other Investments.....	12
Holding Companies	12
Perpetual Preference Shares (PPS)	12
Port of Tauranga Limited	12
Investment Assets.....	12
Activities for Which Compensation is Sought.....	13
Commercial Valuation of Council Investment	13
Other Matters	13
Directory	14

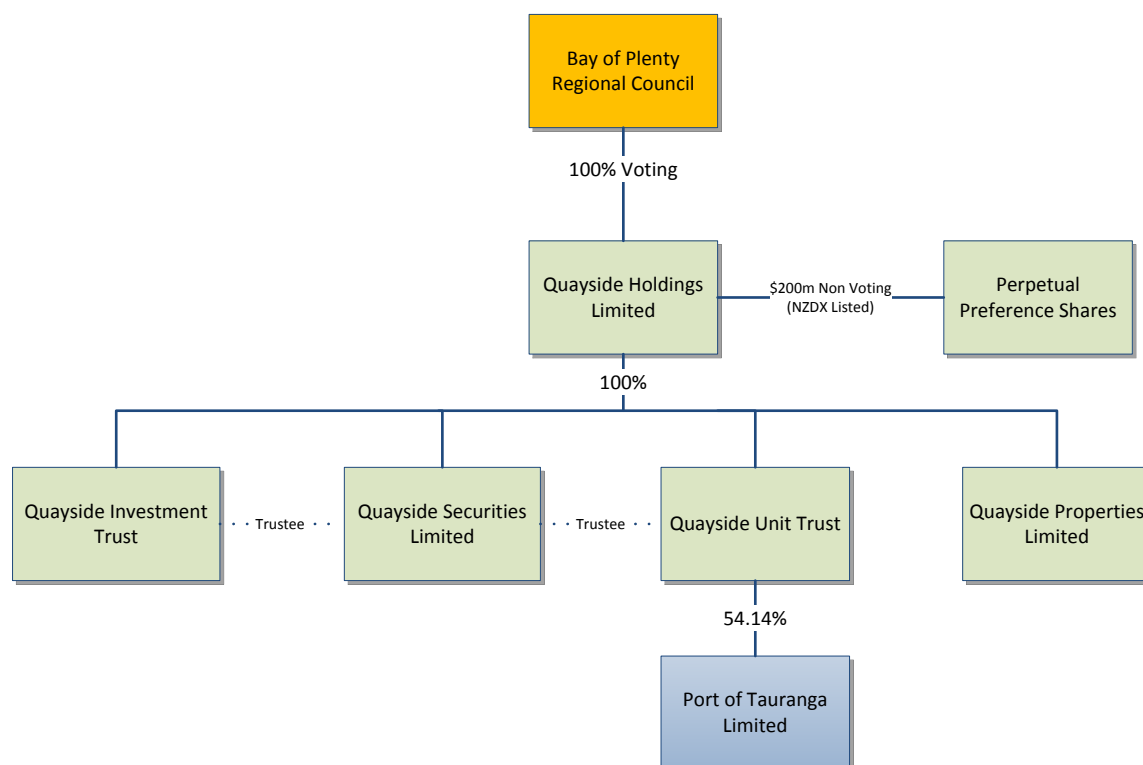
Introduction

The Local Government Act 2002 section 64(1) requires all Council-Controlled Organisations to annually prepare a Statement of Intent. The content of a Statement of Intent must adhere to the Local Government Act 2002 schedule 8.

Quayside Holdings Limited is a Council-Controlled Organisation, itself being a 100% subsidiary of the Bay of Plenty Regional Council. This Statement of Intent also incorporates the nature, scope, activities, and performance targets of subsidiaries of Quayside Holdings Limited, namely Quayside Securities Limited (100%), Quayside Unit Trust (100%), Quayside Investment Trust (100%), and Quayside Properties Limited (100%).

Port of Tauranga Limited is a 54.14% subsidiary of Quayside Securities Limited (as trustee). The Port of Tauranga Limited is not a Council-Controlled Organisation and therefore is not required to produce a Statement of Intent. This Statement of Intent does however include the governance objectives of Quayside Securities Limited (as a majority holder) as it relates to the Port of Tauranga Limited. The investment in the Port of Tauranga Limited is included where reference is made to consolidated financial positions.

The structure of the Quayside Group is as follows:



The Local Government Act 2002 requires a draft of the 2016 / 2017 Statement of Intent to be submitted by 29 February 2016, with final submission by 30 June 2016.

This Statement of Intent is for Quayside Holdings Limited and its subsidiaries for the year 1 July 2016 to 30 June 2017, with dividend forecasts to 30 June 2019.

Terms

Throughout this document the following terms have been applied

“CCO” being a Council-Controlled Organisation as defined by the Local Government Act 2002 Part 5

“CCTO” being a Council-Controlled Trading Organisation as defined by the Local Government Act 2002 Part 5

“Council” being Bay of Plenty Regional Council, 100% shareholder of Quayside Holdings Limited

“GAAP” being generally accepted accounting practice according to the New Zealand Institute of Chartered Accountants

“Group” being Quayside Holdings Limited and its subsidiaries

“IFRS” being the International Financial Reporting Standards as applied in New Zealand and required to be adhered to under New Zealand Company and Financial Reporting legislation

“Infrastructure Assets” being direct investment in commercial return regional infrastructure including (but not exclusively) water, energy, communications, land, and transport

“Investments Assets” being tradable securities, direct investments, and cash held by Quayside Holdings Limited and its subsidiaries, but excluding shares held in the Port of Tauranga Limited

“NZDX” being the New Zealand Debt Exchange, part of the New Zealand Stock Exchange (‘NZX’)

“PIE” being short for Portfolio Investment Entity, a tax status for investment vehicles and applied by Quayside Investments Limited

“Port” being Port of Tauranga Limited, a listed company on the New Zealand Stock Exchange. Quayside Securities Limited is 54.14% holder of the Port as at 30 June 2014

“PPS” being 200,000,783 non-voting \$1 Perpetual Preference Shares issued by Quayside Holdings Limited on 12 March 2008 and listed on the New Zealand Debt Exchange from 13 March 2008

“QIT” being Quayside Investments Trust, a PIE unit trust investment vehicle, established in 2014, being 100% owned by Quayside Holdings Limited

“QHL” being Quayside Holdings Limited, established as a Council-Controlled Organisation (‘CCO’). Quayside Holdings Limited is a 100% subsidiary of the Bay of Plenty Regional Council, and an issuer on the New Zealand Debt Exchange

“QPL” being Quayside Properties Limited, established as a Council-Controlled Trading Organisation (‘CCTO’). Quayside Properties Limited is a 100% subsidiary of Quayside Holdings Limited

“QSL” being Quayside Securities Limited, established as a Council-Controlled Organisation (‘CCO’). Quayside Securities Limited is a 100% subsidiary of Quayside Holdings Limited, and trustee of Quayside Investments Limited, a PIE and Quayside Unit Trust, including being trustee of a 54.14% shareholding in the Port of Tauranga Limited

“QUT” being Quayside Unit Trust, a unit trust and investment vehicle owned by Quayside Holdings Limited and the Bay of Plenty Regional Council

“Region” being the jurisdiction of the Bay of Plenty Regional Council

Objectives of the Group

Quayside Holdings Limited and subsidiaries QSL and QUT were established in 1991 when QSL commercially acquired a majority interest in the Port of Tauranga Limited from the Bay of Plenty Regional Council. Quayside Properties Limited was established in 2003. Quayside Investment Trust was established in 2014.

The group objectives are

- To be an effective cornerstone shareholder, allowing the Port of Tauranga Limited (or any other subsidiary) to perform as an independent commercial company through the effective separation of Council and Port responsibilities,
- To enable the Council to undertake commercial activities in accord with the Local Government Act 2002,
- To act as a responsible commercially focused investor and manager, targeting long term commercial returns, delivering the shareholder growth and income,
- To access additional commercial expertise through the appointment of independent directors,
- To provide appropriate access to efficient funding, for the benefit of the Region,
- Seek and or where requested by Council identify, analyse, implement and or manage new commercial opportunities,
- To work openly with the Council to provide regional benefit,
- To ensure open dialogue exists between the Group and the Council,
- To comply with all relevant legislation as both a CCO and an issuer on the NZDX.

Governance

This section outlines the responsibilities and selection criteria of the QHL Board of Directors.

Role and Appointment of the Board

The Board of QHL is appointed by the Council in accord with the Council policy “Policy for the Appointment and Remuneration of Directors to the Board of Council Subsidiaries (June 2014)”. The policy targets the Board of Quayside consist of an equal number of Council (currently three, being the Bay of Plenty Regional Council Chief Executive Officer and two elected members) and independent Board members. Under this same policy, Council will set a total remuneration pool for Directors of Quayside Holdings, and its subsidiaries Quayside Securities Limited and Quayside Properties Limited. At the time of writing the Board of Quayside consists of seven members of whom four are independent.

Appointment to the Board of subsidiary organisations is the responsibility of the Board of QHL. In respect of appointment to the Board of the Port, this is determined by the Board of QSL as trustee. One appointee to the Board of the Port is currently a Councillor, recommended to QSL by the Council. A second appointee will be an independent Director of QSL.

All Directors of the Group have and must apply skills, knowledge and experience in the best interests of the Group, be committed to high quality governance, and assist the Group to meet its objectives and the requirements of this Statement of Intent.

The Board is responsible for the appointment and performance monitoring of the Chief Executive of the Group.

Committees and Policies

The Audit Committee assists in the oversight of regulatory and financial reporting compliance, external audit processes and financial controls. The committee is responsible for assessing and monitoring the business and commercial risks of the Group. A full description of the Audit Committee composition and duties is contained in the Audit Committee Charter.

The Remuneration Committee objective is to assist the Board in all aspects of the CEO remuneration policy and statutory compliance in respect of both officers and directors. A full description of the committee purpose is set out in the Remuneration Committee charter.

Delegated Authority policies have been put in place to enable the Chief Executive of the Group to manage the day to day activities of the group. The Board in conjunction with the Chief Executive will determine and monitor the levels of support staff and consultancy services required to achieve the objectives of the Group as outlined in this Statement of Intent.

Charters and Policies are to be reviewed on a no less than biennial basis.

Nature and Scope of Group Activities

The Group undertakes activities through a holding company (QHL), wholly owned subsidiaries (QUT, QIT, QSL, and QPL) and a majority interest in the Port of Tauranga Limited.

Core Activities are

Port Portfolio:	Majority ownership of the Port of Tauranga. Monitor financial performance, peer relative performance, and corporate governance.
Investment Portfolio:	Generation of commercial returns and an income stream through a diversified share investment portfolio.
Infrastructure Portfolio:	Targeting long term commercial returns through the investment and or management of Infrastructure assets (including property) across the Region.
Commercial Ventures:	Targeting commercial returns and or regional benefits through significant strategic partnerships in new and existing businesses.
Governance:	Ensure that the Group manages Council assets in a commercially responsible manner. Ensure that the legislative compliance is achieved as both a CCO and NZDX listed entity. Ensuring open dialogue occurs between the Group and Council.

Ratio of Shareholder Funds to Total Assets

GROUP CONSOLIDATED (IFRS)	2015	2016	2017
Assets (\$000's)	1,444,258	1,452,569	1,462,569
Liabilities (\$000's)	464,745	463,158	463,158
Shareholder Funds (\$000's)	979,513	989,411	999,411
Shareholder Funds to Assets	67.82%	68.11%	68.33%

The figures above are all reflective of 30 June positions for their respective years. The 2015 position is an actual, 2016 is forecast based on a 31 December 2015 actual, and 2017 is forecast based on current asset holdings and valuation plus retained earnings. Shareholder Funds is inclusive of PPS shareholders and minority interests in the Port of Tauranga.

QUAYSIDE GROUP (Market Value)	2015	2016	2017
Assets (\$000's)	1,421,720	1,537,391	1,547,391
Liabilities (\$000's)	54,981	55,263	55,263
Shareholder - PPS (\$000's)	200,000	200,000	200,000
Shareholder - Council (\$000's)	1,166,739	1,282,128	1,292,128
Council Shareholder Funds to Assets	82.07%	83.40%	83.50%

The figures above are all reflective of 30 June positions for their respective years. The 2015 position is an actual, 2016 is forecast based on a 31 December 2015 actual, and 2017 is forecast based on current market valuation plus retained earnings. Positions are reflective of the market price of the investments of the Quayside Group.

Accounting Policies

The financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS), the Companies Act 1993, the Local Government Act 2002 and is a Tier 1 reporting entity under the Financial Markets Conduct Act 2013. A full set of accounting policies are available on request, or via the QHL Annual Report.

Performance Targets

Performance targets are effective for the year represented by this Statement of Intent. Target measures will therefore be assessed in full on or after 30 June 2016. The Group will keep Council informed during the year of progress against performance targets on a no surprises basis.

Port Portfolio

	Objective	Measure
1.	Maintain a majority holding in the Port of Tauranga Limited	Holding of greater than 51%

Investment Portfolio

	Objective	Measure
1.	Generate commercial returns across the Investment Portfolio	Three year rolling gross return of $\geq 7.5\%$ per annum
2.	Adherence to industry standards including responsible investing	Management and monitoring of investment portfolio against Quayside SIPO and Responsible Investment frameworks

Infrastructure Portfolio

	Objective	Measure
1.	Generate long term commercial returns and or regional benefit through a portfolio of Infrastructure Assets	Annual Board assessment of benefit of each asset holding

Commercial Ventures

	Objective	Measure
1.	Generate long term commercial returns and or regional benefit through a portfolio of Commercial Assets	Positive long term commercial return having regard to potential regional benefits.

Governance

	Objective	Measure
1.	Keep Council informed on a no surprises basis, providing quality and timely information	A minimum of three presentations to Council shareholders per annum plus timely advice and support as required
2.	Ensure Group Policies and Procedures are current and appropriate	All Policies and Procedures to be reviewed no less than biennially
3.	Meet Shareholders distribution expectations as outlined in SOI or as otherwise agreed.	Distributions paid to agreed values
4.	Compliance with NZDX listing requirements for PPS holders	No open issues

Distribution to Shareholders

Distributions to Council

	2017	2018	2019
Distribution (\$000's)	20,800	21,750	22,500

The figures above are all reflective of the cash distribution in the year to 30 June for their respective years.

The distribution is intended to be paid from operating cash flow of the Group after payments to PPS holders. The level of distribution to Council has been made in consultation with Council. This distribution model allows the Group to retain long term capital growth to cover inflation and population growth.

Special distributions can be made on an as agreed basis between Quayside and Council in accord with Quayside Distribution and Reserving Policy.

Distributions to PPS Holders

	2017	2018	2019
Distribution (\$000's)	11,760	11,220	9,600

The dates above are all reflective of gross distributions in the year to 30 June.

The distribution reflects the fully imputed (at 28%) distribution to unit holders of the PPS, and is inclusive of 5% Resident Withholding Tax (RWT). The distribution rate was reset for a three year period on March 12 2014 according to the methodology prescribed in the PPS Prospectus at 5.88%. The next reset rate occurs on March 12 2017, which has been forecast at 4.80%.

Reporting to Shareholders

Annual and Interim Financials

The Group will provide full year audited financial results with commentary to Council and the NZDX (for PPS holders) within 90 calendar days of year end (approximately end of September). Unaudited interim results with commentary will be provided within sixty calendar days of the end of the first half of the year (approximately end of February). This is a requirement of Quayside as a CCO under the Local Government Act 2002, and as an issuer under the NZDX listing rules (for PPS holders).

The Group (Directors and Executive Officers) will make a formal presentation of financials to Council twice a year (dates likely in March and November).

These presentations focus on presenting the financial performance of the Group against budget. Group Financials will be presented in full with specific focus on

- Performance of the Port Portfolio
- Performance of the Investment Portfolio
- Performance of the Infrastructure Portfolio
- Performance of Commercial Ventures
- Corporate Governance
- Dividend Payments to Shareholders

Group Updates

The Group is also to provide Council with updates on an as requested basis. The Group will make additional presentations to Council on an as requested basis.

All presentations to Council, whether updates or presentation of financials will provide the Group an opportunity to disclose performance year to date against stated performance targets in this Statement of Intent.

No Surprises

The Group operate on a “no surprises” basis with its parent shareholder, the Council. The Group will look to advise the Council early of any material departure from the Statement of Intent at the soonest practical opportunity.

Acquisition and or Disposal of Shares and Other Investments

Holding Companies

The structure of the Group as illustrated in the Introduction section of this Statement of Intent can be changed via resolution of the Board and advised to Council.

Any change in structure shall give due consideration to protecting the investment of the shareholder, protecting the groups strategic investments, and protecting the value of future forecast distributions to shareholders.

Where a change in structure requires new Directors or a recommended change in Directors remuneration, Quayside will advise Council on a “no surprises” basis.

Perpetual Preference Shares (PPS)

The issuance and rules for any amendment to the number of units issued to PPS unit holders will be in accord with the Investment Statement and Prospectus document of 31 January 2008. The Group may, where commercially viable and in accord with NZDX rules, purchase on the open market (and cancel) shares issued to PPS unit holders.

The PPS units are subject to a rate reset during the period of this Statement of Intent. Quayside will inform the market of this rate on 12 March 2017.

Port of Tauranga Limited

A majority holding of the Port will continue to be held by the Group. The Group can only sell below 51% with the approval of the Council. The current shareholding in the Port is 54.14% held by QSL.

Investment Assets

The Group seeks commercial return and an income stream through shareholdings in external companies as traded on various exchanges, being Investment Assets. The Group is entitled to acquire and dispose of Investment Assets without prior consent of the Council, except where that transaction shall be deemed a major transaction under the provisions of the Companies Act 1993 section 129 (2).

Management of Investment Assets is governed by a Statement of Investment Policy and Objectives (SIPO). The SIPO is a live document, last updated by Board resolution 14 April 2015, and is available upon request.

In 2014 the Group created a new entity, Quayside Investment Trust. This entity is a PIE for tax purposes. The Group is migrating its existing market listed investment assets into Quayside Investment Trust as opportunity permits.

The Group has adopted a policy on Responsible Investments in relation to market traded share investments.

Activities for Which Compensation is Sought

There are no activities for which compensation is sought by the Group from the Council.

The Council does hold a contingent liability in respect of uncalled Redeemable Preference Shares in QHL. The amount available to be called is limited to \$81.8 million. There is no current intention or obligation requiring this capital to be called.

Commercial Valuation of Council Investment

	2015	2016	2017
Council Investment (\$000's)	1,166,739	1,282,128	1,292,128

The figures above are all reflective of 30 June positions for their respective years. The 2015 position is an actual, 2016 is forecast based on 31 December 2015 actuals, and 2017 is forecast.

Council Investment will be the market value of shares held in the Port, together with the value of any other investments, less liabilities of the Group, and less the value attributable to PPS holders.

For the purpose of the forecast position above, the PPS has been valued at \$200m. This may be greater should the market value of the PPS on the NZDX be at a price of greater than \$1.00 per share held.

Other Matters

There are no matters other than those set out above.

Directory

Quayside Holdings Limited and Subsidiaries

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Tauranga 3110

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Tauranga 3110

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John Green QSM
Mary-Anne Macleod
Jane Nees
Warren Parker
Robert Tait
Paula Thompson

Chief Executive: Scott Hamilton

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