

Appendix One – Statement of Intent

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**MDC
HOLDINGS LIMITED**

STATEMENT OF INTENT

FOR THE FINANCIAL YEAR ENDING 30 JUNE 2018
AND EACH OF THE IMMEDIATELY FOLLOWING TWO YEARS

1. Introduction

- This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002.
- The SOI specifies for the Parent, MDC Holdings Limited (MDCH), and its subsidiaries the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the Group may be judged in relation to its objectives, amongst other requirements.
- The process of negotiation and determination of an acceptable SOI is a public and legally-required expression of the accountability relationship between the company and its shareholder, the Marlborough District Council (Council).
- The SOI is reviewed annually with the Council and covers a three year period.
- MDCH is a Council Controlled Trading Organisation which has been established by the Council to act as a holding company for its main trading enterprises. MDCH is 100% owned by Council.
- Port Marlborough New Zealand Limited (PML) and Marlborough Airport Limited (MAL) are wholly owned subsidiaries of MDCH. Separate SCI/SOI are completed by these companies for consideration and approval by MDCH.

2. Objectives of the Company

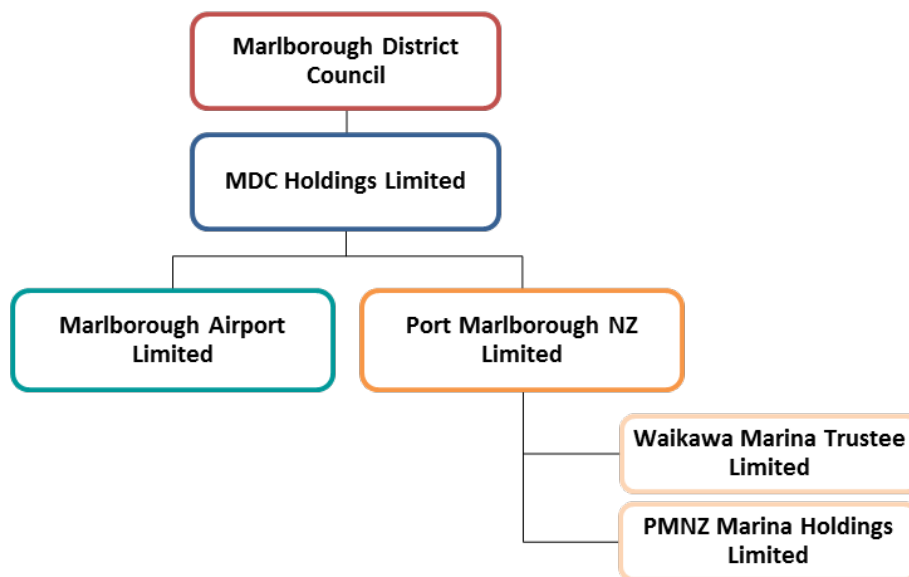
MDCH has the following objectives:

- (a) to operate as a successful holding company, both in a financial and commercial sense;
- (b) to provide the means for bringing the main trading enterprises of the Council together into one structure;
- (c) to encourage and facilitate subsidiary companies to increase shareholder value;
- (d) to separate the commercial trading activities of the Council from the other functions carried out by the Council;
- (e) to provide an anticipated cashflow to the Council from its trading enterprises, by means of a regular stream of dividend income;
- (f) to obtain commercial borrowing facilities at the most attractive rates attainable;
- (g) to monitor the performance of each subsidiary company against the objectives and performance measures contained in their SOI/SCI and other benchmarks;
- (h) to provide a forum to Council advising on strategic issues relating to its trading investments including, but not limited to, ownership structures, capital structures, rates of return, joint venture opportunities; and

- (i) to own and oversee the operation of MAL for the dual objectives of promoting sustainable regional and economic development as well as maximizing the return on assets employed. In order to balance these objectives, MDCH may accept a lower return or slower return to profitability.

3. Nature and scope of the activities to be undertaken

The MDCH Group structure is summarized below:



MDCH will undertake the following activities:

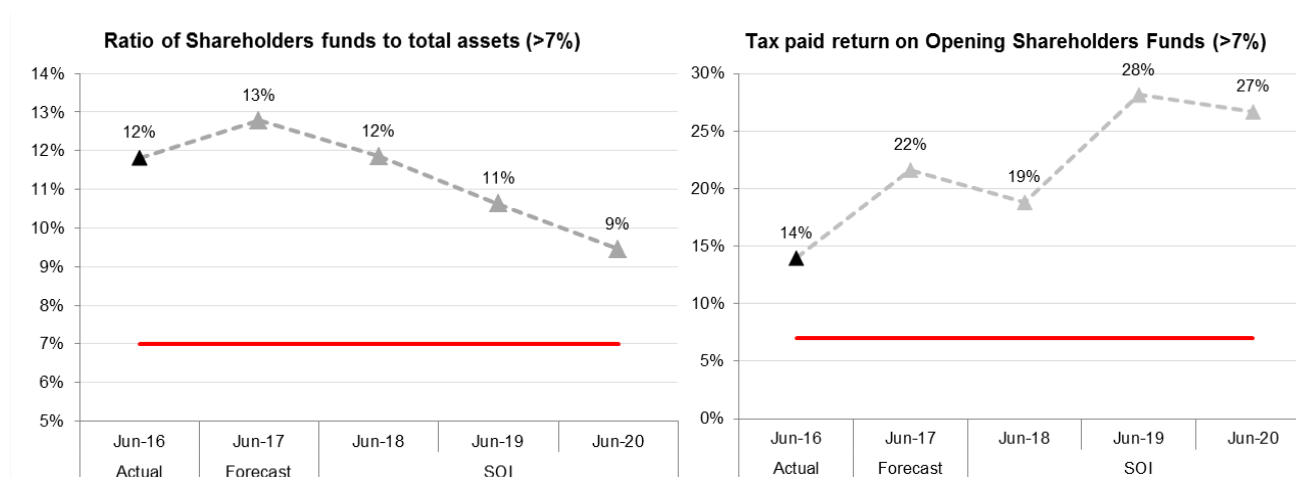
- Obtain financing for its subsidiaries and Parent at the most attractive commercial rates available. MDCH currently has Bancorp as its principal debt management advisor;
- Consider and approve the SOI/SCI of its subsidiaries and negotiate its own SOI with Council;
- Monitor the financial and commercial performance of its subsidiaries against the targets contained in their SOIs and other industry benchmarks;
- Monitor the adequacy of governance arrangements in subsidiaries;
- Encourage open discussion and dialogue with the representatives of its subsidiaries;
- Provide commercial advice to Council and manage its commercial activities on request;
- Recommend and manage the appointment of new Directors to the Boards of its subsidiary companies.

4. Performance targets

4.1 MDCH performance targets for 2017/18 are as follows:

| Performance targets | Key performance indicators |
|-------------------------------|---|
| <i>Financing</i> | (a) To continue to review the financing needs of: <ul style="list-style-type: none"> • PML and its subsidiaries; and • MAL with a view to having adequate cost effective debt facilities in place |
| | (b) To facilitate a good ongoing working relationship with subsidiaries and monitor their performance, including: <ul style="list-style-type: none"> • reports and presentations from the Chair and Chief Executive of PML on current issues, the six monthly results, Draft SOI and Annual Report; and • a report on the steps taken to ensure shareholder value is being maximized, on a regular basis. |
| <i>Governance</i> | (c) Develop a letter of shareholder expectations by 31 December, should it have any specific expectations it wants the subsidiary to incorporate into its forthcoming SOI/SCI. |
| <i>Financial</i> ¹ | (d) The ratio of shareholders' funds to total assets ² is projected to be greater than 10% for June 2018. The long-term ratio of shareholders' funds to total assets is to be greater than 7%. |
| | (e) Return after tax (excluding IFRS revaluations) on opening shareholders' funds is projected to be greater than 10%. The long-term return after tax (excluding IFRS revaluations) on opening shareholders' funds is to be greater than 7%. |

An overview of MDCH financial targets is graphed below:



¹ The financial ratios will be reviewed annually in the light of projected cash flows and the performance of its subsidiaries.

² Shareholders' funds (or total equity) are defined as the sum of the amount of paid up share capital, retained earnings, accumulated losses, revenues and capital reserves.

Total assets are defined as the sum of the net book value of current assets, investments, fixed assets and tangible assets as disclosed in MDCH's Statement of Financial Position prepared in accordance with Generally Accepted Accounting Practice (GAAP).

4.2 MAL performance targets from MAL 2017/18 SOI are as follows:

| Performance targets | Key performance indicators | 2017-18 Target | 2018-19 Target | 2019-20 Target |
|-------------------------------------|--|---|----------------|---|
| A welcoming gateway for travellers | Customer satisfaction with MAL services as measured by bi-annual survey (where 10="Service delivered extremely well") | Survey completed by 31 December 2018. Benchmark set. | | Targeted satisfaction > Benchmark for maintenance or improvement (benchmark set following result of first survey) |
| | Extension and upgrade of the public and rental car parking areas | Negotiations for land completed by 31 March 2018 to allow extension to be completed by 30 June 2018 | | |
| Health & Safety and Risk Management | Comply with Health & Safety at Work Act (2015) at all times with any non-compliance and near misses to be reported to the Board on a quarterly basis | 100% compliant | 100% compliant | 100% compliant |
| | Complete implementation of a Safety Management System | Plan completed by 31 March 2018 | | Full implementation completed by 31 October 2019 |
| | Implementation of Aviation Security Service Tier 2 Security provisions | Implementation complete by 31 July 2017 | | |
| Maintain CAA Part 139 certification | Compliance with CAA Rules | 100% compliance with CAA Audit due April 2018 with no need for revisit | | 100% compliance with CAA Audit due April 2020. |
| Facilitate economic development | Meet passenger (pax) growth forecasts, encourage new routes and foster growth on the direct route from Christchurch: | | | |
| | Pax movements | 300,000 | 309,000 | 317,000 |
| | Landings | 9,100 | 9,300 | 9,500 |

| Performance targets | Key performance indicators | 2017-18 Target | 2018-19 Target | 2019-20 Target |
|---|--|---|--------------------------|----------------|
| Pursue opportunities to increase the value of commercial activities | Negotiate for additional land for aeronautical and commercial development. | Negotiations completed by 30 June 2018. | | |
| | Promote new conference and meeting facilities. | Advertising campaign completed by 31 December 2017. 200% increase in revenue over 2016/17 | 50% increase in revenue. | |
| | Attract further advertising revenue through use of digital media. | Digital Media business case completed by 31 July 2017 70% increase in advertising revenue over 2016/17 | | |
| Review the Strategic Plan | Develop a new Strategic Plan | Review 2010 Strategic Plan by 31 December 2017 New Strategic Plan in place by 31 March 2018 | | |
| Financially Sustainable – measured by these key indicators | Cash from operations ¹ (\$000's) | 956 | 980 | 1,015 |
| | EBITDAF ² (\$000's) | 838 | 830 | 822 |
| | NPAT ³ (\$000's) | 79 | 85 | 98 |
| | ROI ⁴ | 6.0% | 6.1% | 6.6% |
| | Return on average Fixed Assets ⁵ | 1.0% | 1.1% | 1.2% |
| | Interest cover ⁶ > 2 | 5.0 | 5.4 | 6.4 |
| | Debt : EBITDAF < 4.5 | 4.1 | 3.8 | 2.9 |
| | Debt : Total assets < 40% | 44.4% | 39.4% | 30.0% |
| | Shareholders' funds : Total assets ⁷ | 16.9% | 17.8% | 18.6% |

¹ Differs to cashflow statement due to timing of Income Tax payments

² Earnings before interest, taxation, depreciation, amortisation and fair value movements
Note: as fair value movements are not budgeted in the budget this equals EBITDA

³ Net Profit after tax

⁴ Return on equity = NPAT less fair value movements / Average equity

⁵ NPAT less fair value movements / Average total assets

⁶ EBITDAF/Interest expense

⁷ Average equity / Average total assets; this measure is required by the Local Government Act to be included in this SOI.

4.3 PML performance targets from PML 2016/17 SCI are as follows:

NOPAT excluding Asset and Derivative Revaluations is projected as follows for the next three years:

2017 \$6.08m

2018 \$7.66m

2019 \$7.00m

Performance shall be judged against the following measures:

| KPI | Actual | Actual | Measure | | |
|---|----------|----------|-------------------|-------------------|----------|
| | 14 / 15 | 15 / 16 | 16 / 17 | 17 / 18 | 18 / 19 |
| Financial | | | | | |
| NOPAT / Return on Shareholder's Funds (i) | 5.1% | 5.3% | 4.9% ¹ | 6.0% ¹ | 5.3% |
| EBITDA (ii) (excludes non cash revaluations) | \$11.46m | \$12.10m | \$12.70m | \$15.44m | \$15.26m |
| Equity Ratio | 69.4% | 70.1% | 70.3% | 69.9% | 64.6% |

| | Actual | Actual | Measure | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 14 / 15 | 15 / 16 | 16 / 17 | 17 / 18 | 18 / 19 |
| Trade | | | | | |
| Ferry freight movement (% volume movement to prior year) | 8.8% | -0.8% | 2.0% | 2.0% | 2.0% |
| Log volumes (jas) | 665,221 jas | 659,985 jas | 690,000 jas | 660,000 jas | 660,000 jas |
| Cruise ships (number visited) | 36 | 35 | 39 | 39 | 39 |
| Marinas | | | | | |
| Berth occupancy | 85.0% | 86.9% | 88.3% | 90.0% | 91.0% |
| Boatshed occupancy | 98.0% | 97.2% | 98.0% | 98.0% | 98.0% |
| Health and Safety | | | | | |
| LAG Indicator | | | | | |
| Lost Time Injury (LTIs) | 3 | | 0 | 0 | 0 |
| Medical Treatment Injuries | 6 | | <5 | <4 | <3 |
| LEAD Indicator | | | | | |
| Near Hit Reporting (NHR) | 23 | | 30 | 30 | 30 |
| Hazard Identification Reporting (HIR) | 81 | | 100 | 100 | 100 |
| Safety Behaviour Observations (SBO) | 112 | | 100 | 100 | 100 |

(i) NOPAT = Net Operating Profit After Tax

(ii) EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation

5. Statement of Accounting Policies

The measurement and reporting of earnings and financial position is in accordance with International Financial Reporting Standards and the policies adopted by the Marlborough District Council Group.

The Accounting Policies adopted are the same as those contained in the in MDCH's 30 June 2016 Annual Report and available on Council's website <http://www.marlborough.govt.nz/Council-Publications/Plans-Policies-and-Documents/MDC-Holdings-Limited.aspx>.

¹ Anticipates sustained positive trading conditions and successful contract renegotiation with Cook Strait ferry operators.

6. Dividend Distribution Policy

Profit retention and the level of dividends to be paid will be recommended from year to year by the Directors in accordance with results and circumstances prevailing, subject to solvency certification at the time.

It is the intention of the Directors to distribute, by way of dividend, all of the net tax paid profit available.

7. Corporate Governance

This statement gives readers an overview of the MDCH's main corporate governance policies, practices and processes adopted or followed by the Board.

Role of the Board of Directors

The Board is responsible for the proper direction and control of the MDCH's activities. The Board guides and monitors the business and affairs of MDCH on behalf of the shareholder, the Council, to whom it is accountable, within the framework of the objectives set out in this SOI.

All Directors use the New Zealand Institute of Directors' Code of Proper Practice for Directors as a guide to assist them in carrying out their duties.

The Board recommends to Council the appointment of Directors to subsidiary companies.

Responsibility to shareholder Statement of Intent

In accordance with the Local Government Act 2002, MDCH submits a draft SOI for the coming financial year for consideration by MDCH's shareholder, the Council. The SOI sets out the company's overall objectives, intentions and financial and performance targets. Having considered any comments on the SOI by the Council, the company issues its SOI in final form.

Information flows

The Board aims to ensure that the Council is informed of all major developments affecting MDCH and group's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Council through periodic reports to the Council, occasional seminars and through both the Annual Report and the Half-Yearly Report.

Board composition and fees

The Board comprises six Directors: Mayor, two Councillors, two external Directors and the Council's Chief Executive. The Mayor and Councillor Directors are required to retire by rotation within three months following the triennial local government elections, but are eligible to be re-appointed. External Directors normally retire after two three year terms, but this may be extended for a further term. Appointments to MDCH are made directly by Council.

Fees for the MDCH Board are reviewed annually. The MDCH Board recommends fee levels to the Council based on commercial norms, but discounted to recognize the community good element of the position. Where a Director provides professional services over and above the normal role of a Director, he or she is entitled to charge for those services at commercial rates provided the conditions of the Board's Conflict of Interest policy are met.

Subsidiary and monitored companies Monitoring

Each subsidiary and monitored company submits annually a draft SOI/SCI, which is evaluated initially by MDCH. MDCH reviews the SOI/SCI and suggests any changes that may be considered necessary.

It is established practice for representatives of the subsidiary Board and management to meet with MDCH at this time, and on at least one other occasion each year, to discuss the company's strategic direction and any significant issues that arise. The Board also receives such other reports as are necessary to perform its monitoring function. However, MDCH does not involve itself in the management of the subsidiary companies.

Board appointments

All Directors of subsidiary companies are selected for their commercial expertise and aptitude.

Financial results

Directors receive and review financial updates and other parent company reports at each meeting.

8. Information to be provided to Shareholder

- MDCH will provide interim six monthly reports to its shareholder on the results of its trading.
- Consolidated financial accounts will only be provided at financial year-end.
- MDCH will provide information which meets the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Local Government Act 2002 and the reporting requirements prescribed from time to time by the Institute of Chartered Accountants of New Zealand in order to enable the shareholder to make an informed assessment of the Company's performance.
- The Company will make the following reports available to its shareholder:

(a) Annual Statement of Corporate Intent

A Statement of Intent will be prepared in accordance with the Local Government Act 2002.

(b) Annual Report

An Annual Report will be prepared in accordance with the Local Government Act 2002, the reporting requirements prescribed from time to time by the Companies Act 1993, the Financial Reporting Act 2013 and in compliance with generally accepted accounting practices in New Zealand. The annual report shall contain the following:

- (i) Income Statement;
- (ii) Statement of Financial Position;
- (iii) Statement of Changes in Equity;
- (iv) Statement of Cash flows; and
- (v) Report on Activities.

(c) Half Yearly Reports

Half yearly reports will be prepared in accordance with the Local Government Act 2002, the reporting requirements prescribed from time to time by the Companies Act 1993 and the Institute of Chartered Accountants of New Zealand. The half-yearly reports will include the following:

- (i) Income Statement;
- (ii) Statement of Financial Position;
- (iii) Statement of Changes in Equity;
- (iv) Statement of Cash flows; and
- (v) Report on Activities.

9. Procedure for acquisition of shares in any Company or other organisation

All investment proposals for the acquisition of shares in the company or other organisation will be considered in the first instance by the Directors.

If any decision is contemplated to acquire assets to the value of which is more than 10% of the value of the MDCH's assets before the acquisition, the decision will be made only after the Directors have obtained the prior written approval of the Council, as majority shareholder.

10. Procedure or the disposition of shares

MDCH will not dispose of any shares in PML or MAL without the prior written approval of Council as majority shareholder.

11. Activities for which the directorate seeks compensation from the Local Authority

No compensation is sought or intended to be sought for any of MDCH's activities, from the shareholder or any other party.

12. Commercial value of Shareholder's investment

The commercial value of the shareholder's investment will firstly be based on the historical accounts maintained by MDCH in accordance with the accounting policies stated above. The commercial value of shareholder's funds is nominally forecast to be \$8,791,000 at 30 June 2017 (\$8,262,000 actual at 30 June 2016).

From time to time the Directors or the shareholder may request that an independent valuation of the shareholder's investment be undertaken. The manner and timing of this assessment will be determined by the purpose for which it is undertaken or by the terms of the request by the Directors or Shareholder.

13. Other matters

The Shareholder and Directors agree that the above matters are the only ones to be covered in this SOI and that there are no additional matters to be included.

Appendix two - Legal Compliance

LEGAL COMPLIANCE

Local Government Act 2002 Schedule 8, Clause 9: - Contents of Statements of Intent

| (1) A Statement of Intent must, to the extent that is appropriate given the organisational form of the council-controlled organisation, specify for the group comprising the council-controlled organisation and its subsidiaries (if any), and in respect of the financial year immediately following the financial year in which it is required by <u>clause 3(b)</u> to be delivered and each of the immediately following two financial years, the following information: | | SOI Section |
|---|--|-------------|
| (a) | the objectives of the group; and | 2 |
| (b) | a statement of the Board's approach to governance of the group; and | 8 |
| (c) | the nature and scope of the activities to be undertaken by the group; and | 3 |
| (d) | the ratio of consolidated shareholder's funds to total assets, and the definitions of those terms; and | 4 |
| (e) | the accounting policies of the group; and | 5 |
| (f) | the performance targets and other measures by which the performance of the group may be judged in relation to its objectives; and | 4 |
| (g) | an estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholder; and | 6 |
| (h) | the kind of information to be provided to the shareholder by the group during the course of those financial years, including the information to be included in each half-yearly report (and, in particular, what prospective financial information is required and how it is to be presented); and | 8 |
| (i) | the procedures to be followed before any member or the group subscribes for, purchases, or otherwise acquires shares in any company or other organisation; and | 9 |
| (j) | any activities for which the Board seeks compensation from any local authority (whether or not the local authority has agreed to provide the compensation); and | 11 |
| (k) | the Board's estimate of the commercial value of the shareholder's investment in the group and the manner in which, and the times at which, that value is to be reassessed; and | 12 |
| (l) | any other matters that are agreed by the shareholder and the Board. | 13 |

Appendix 3 – Budget

MDC HOLDINGS LIMITED - BUDGET

FOR THE FINANCIAL YEAR ENDING 30 JUNE 2018
AND EACH OF THE IMMEDIATELY FOLLOWING TWO YEARS

MDCH annual budgets and financial performance are based on Subsidiary Company and MDC best estimate. The following assumptions have been used to derive the June 2018 budget outlined below:

- That PML will have borrowings of \$35.5 million in the budget year.
- That MAL will have borrowings of \$3.4 million in the budget year.
- That MDCH will have total debt of \$59.5 million.
- That the proposed Capital Expenditure requiring finance will occur as scheduled.
- MDCH interest rates were calculated using the swap rates to maturity and a 4% rate for the remainder (floating) portion of debt. The rates applied include bank margins.
- MDCH bank fees were calculated at forecast rates with a cumulative cost increase of 5 basis points for each triennial renewal.
- Dividend income forecast is provided by PML.
- The amount available for dividend to Council is largely dependent upon PML dividends being received as forecasted.

| for the 12 months to | Notes | Actual | Forecast | Budget | | |
|------------------------------------|-------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | Jun-16 \$ '000 | Jun-17 \$ '000 | Jun-18 \$ '000 | Jun-19 \$ '000 | Jun-20 \$ '000 |
| Income | | | | | | |
| Interest income | a | 1,941 | 1,677 | 1,949 | 2,656 | 3,066 |
| Dividend income | | 2,092 | 2,494 | 2,437 | 3,186 | 3,271 |
| Subvention | b | 326 | 275 | 295 | 281 | 283 |
| Financing fee income | c | 107 | 50 | 15 | 18 | 19 |
| Total Income | | 4,466 | 4,496 | 4,696 | 6,141 | 6,639 |
| Expenditure | | | | | | |
| Administration costs | d | 52 | 53 | 66 | 55 | 56 |
| Bank fees | c | 160 | 85 | 23 | 25 | 25 |
| Employee benefits expense | e | 47 | 58 | 63 | 64 | 66 |
| Interest expense | a | 2,949 | 2,513 | 2,867 | 3,535 | 3,947 |
| Loss on financial derivatives | f | 859 | 0 | - | - | - |
| Total operating expenditure | | 4,067 | 2,709 | 3,019 | 3,679 | 4,094 |
| Profit before income tax | | 399 | 1,787 | 1,677 | 2,462 | 2,545 |
| Income tax (expense)/credit | | - | 0 | - | - | - |
| Profit after income tax | | 399 | 1,787 | 1,677 | 2,462 | 2,545 |

Notes:

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Profit (excl. derivatives revaluations) | 1,258 | 1,787 | 1,677 | 2,462 | 2,545 |
| MDCH net finance costs (excl. derivatives revals) | 1,061 | 871 | 926 | 886 | 887 |
| Total received from PML (dividend & subvention) | 2,418 | 2,769 | 2,732 | 3,467 | 3,554 |