



## **STATEMENT OF INTENT**

**FOR THE FINANCIAL YEAR ENDING 30 JUNE 2022**

**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.

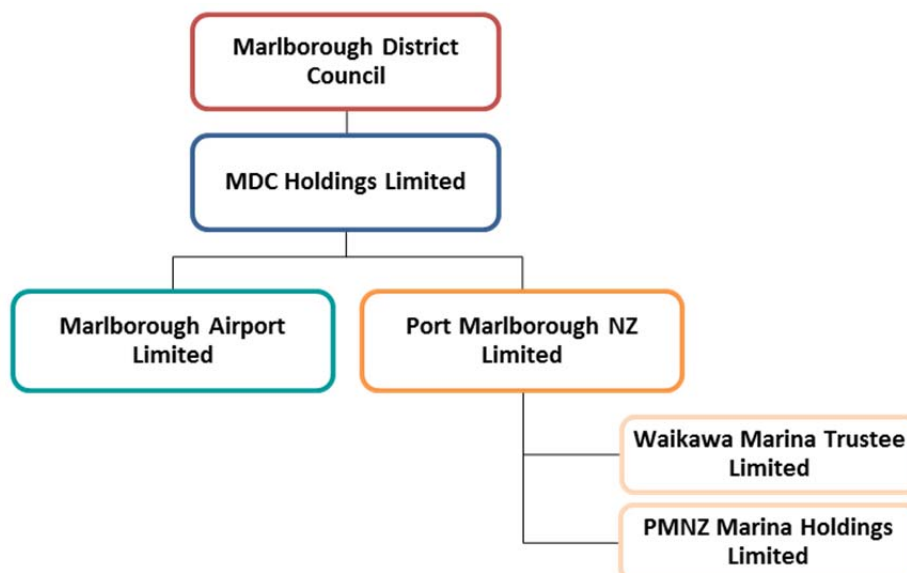
### **2. MDCH has the following objectives**

- (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 2021-22 are as follows:

Performance targets	Key performance indicators
<i>Financing</i>	<p>(a) To continue to review the financing needs of:</p> <ul style="list-style-type: none"> <li>• PML and its subsidiaries; and</li> <li>• MAL</li> </ul> <p>with a view to having adequate cost effective debt facilities in place</p>

**Performance targets    Key performance indicators**

*Governance*

(b) To facilitate a good ongoing working relationship with subsidiaries and monitor their performance, including:

- reports and presentations from the Chair and Chief Executive of PML on current issues, the six monthly results, Draft SCI and Annual Report; and
- a report on the steps taken to ensure shareholder value is being maximized, on a regular basis.

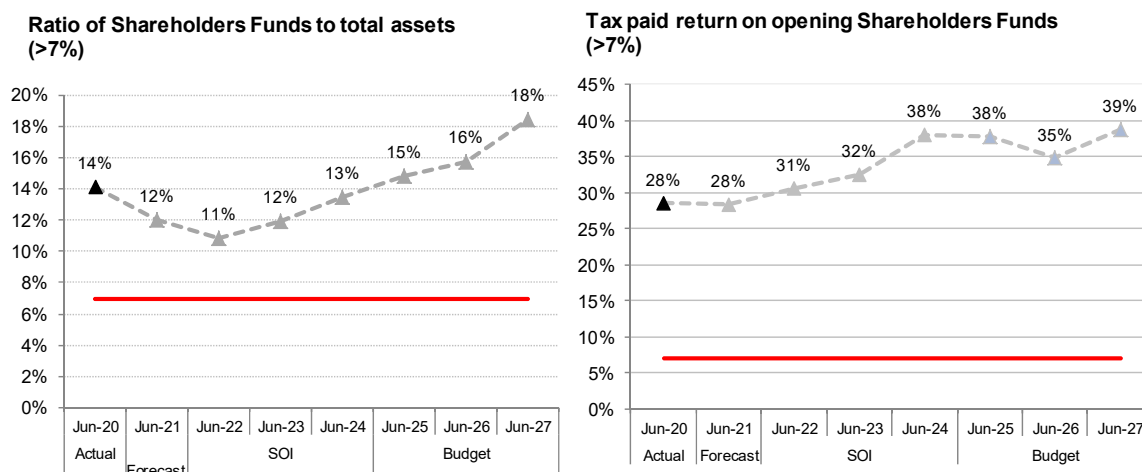
(c) Develop a letter of shareholder expectations by 31 December, should it have any specific expectations it wants the subsidiary to incorporate into its forthcoming SOI.

*Financial<sup>1</sup>*

(d) The ratio of shareholders' funds to total assets<sup>2</sup> is projected to be greater than 12% for June 2020. The long-term ratio of shareholders' funds to total assets is to be greater than 7%.

(e) Return after tax (excluding revaluations) on opening shareholders' funds is projected to be greater than 12%. The long-term return after tax (excluding revaluations) on opening shareholders' funds is to be greater than 7%.

Overview of MDCH financial targets:



<sup>1</sup> The financial ratios will be reviewed annually in the light of projected cash flows and the performance of its subsidiaries. The long-term ratio of shareholder's funds to total assets and return after tax are measured and reported on the three year average.

<sup>2</sup> 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 2021-22 SOI are as follows:

### Customers

Objective	Activity/KPI	2022 Target
Be a welcoming gateway for travellers and airlines and pursue opportunities to increase the value of commercial activities.	Passenger numbers	270,000 passengers.
	Offer new or improved services that maximise customer spend per budget.	Landside revenue per passenger > \$3.79 <sup>1</sup>
	Provide a fit for purpose carpark	Conduct a customer survey after the carpark construction completion

### Infrastructure

Objective	Activity/KPI	2022 Target
Facilitate economic development through timely investment in infrastructure	Ensure current assets are maintained to acceptable standard	All aspects of the annual maintenance program are complete.
	Improve the front of the terminal access.	Engage professionals to investigate options

### Financial

Objective	Activity/KPI	2022 Target
Manage financial performance to ensure MAL achieves its strategic goals, maintains a sustainable business.	Achieve Profit targets as set out in the Budget.	<b>NPAT</b> <sup>2</sup> < -\$300,000 (deficit) <b>EBITDAF</b> <sup>3</sup> >\$650,000 (surplus)
	Maintain a sustainable financial position as set out in the Budget.	<b>Cash flow from operations</b> >\$900,000 (surplus) <b>SH funds/Total assets</b> >20.5% <sup>4</sup> <b>Peak debt</b> <\$5.2 million.
	Capital Expenditure completed and within budget	<\$280,000

## Financial

Objective	Activity/KPI	2022 Target
Manage financial performance to ensure MAL achieves its strategic goals, maintains a sustainable business.	Achieve Profit targets as set out in the Budget.	<b>NPAT<sup>2</sup></b> < -\$300,000 (deficit) <b>EBITDAF<sup>3</sup></b> >\$650,000 (surplus)
	Maintain a sustainable financial position as set out in the Budget.	<b>Cash flow from operations</b> >\$900,000 (surplus) <b>SH funds/Total assets</b> >20.5% <sup>4</sup> <b>Peak debt</b> <\$5.2 million.
	Capital Expenditure	complete and within budget.

## Risk & Compliance

Objective	Activity/KPI	2022 Target
All known risks managed and industry best practice adhered to.	Safety management system.	Risk Rating of Airport kept a very low level<7 (maximum of 25)
	Independent (annual) internal audit and CAA external audit.	Respond to any finding within 4 weeks.
	Ensure business continuity and emergency plans are robust	Test emergency plans through a practice exercise involving all stakeholders.

## Our People

Objective	Activity/KPI	2022 Target
Ensure safe and efficient aircraft operations including a safe and healthy environment for staff and other stakeholders.	Identifying hazards and controlling or eliminating health & safety risks.	100% compliant with Health & Safety at Work Act (2015) and the NZCAA Part 139 Certificate rules & regulations.
	Lost time injuries	Nil
	Develop staff capability	Implement a training and development program to ensure operational resilience
	Improve staff wellbeing	Investigate opportunities for improving staff wellbeing

### **Business Sustainability**

<b>Objective</b>	<b>Activity/KPI</b>	<b>2022 Target</b>
Implement Policies and programmes that operate effectively and reflect our commitment to a sustainable and successful airport business.	Review the strategic plan.	Complete an annual assessment of whether airport capabilities and development projects are in harmony with the long-term strategic plan.

### **Environmental Sustainability**

<b>Objective</b>	<b>Activity/KPI</b>	<b>2022 Target</b>
Implement Policies and programmes that operate effectively and reflect our commitment to a sustainable and successful airport business.	Improve recycling percentage and amount to landfill.	Measure rubbish and recycling volumes.
	Promote and adopt waste management minimisation and energy consumption reduction per the Environmental and Waste Management Plan.	Replace light towers with more energy efficient options.
	Measure the airports environmental impact	Successfully implement the Airport Carbon and Emissions Reporting Tool (ACERT).

1 Landside revenue excludes aeronautical, investment property, cost recovery and financial revenue.

2 NPAT = Net Operating Profit after Tax. The deficit result is not a target but rather the budgeted result for 2022.

3 Earnings before interest, taxation, depreciation, amortisation and fair value movements (movements in fair value are not budgeted)

4 Shareholder Funds to total assets; Average equity/Average total assets.

### 4.3 PML performance targets from PML 2020-21 SCI are as follows:

Performance shall be judged against the following measures:

Perspective	KPI	Actual				Target			
		19 - 20	20 - 21	21 - 22	22 - 23	19 - 20	20 - 21	21 - 22	22 - 23
HEALTH AND SAFETY	<b>SAFETY LAG INDICATORS –</b> Lost Time injuries (LTI) per 100,000 work hours	0.8	0	0	0	0.8	0	0	0
	Medical Treatment injuries (MTI) per 100,000 work hours	0.0	<2	<2	<2	0.0	<2	<2	<2
	<b>SAFETY LEAD INDICATORS –</b> Near Hits Reported	18	25	30	35	18	25	30	35
	<b>WELLNESS INDICATORS</b> Annual health checks and health insurance made available for permanent staff	100%	100%	100%	100%	100%	100%	100%	100%

SUSTAINABILITY	<b>Employee Diversity - Gender</b>	72% M 28% F	Diversity Plan and Succession Plan Strategy implemented by 30 June 2021		
	<b>Employee Diversity - Age</b>	34% <50 years 66% 50+ years			
	<b>Fresh water withdrawal</b> (megalitres)	124	Nil increase	-3%	-3%
	General Waste to landfill (Tonnes)	817	-3%	-3%	-3%
	Recycling (Tonnes)	51			
	Recycling as % of general waste to landfill	6.1%	8%	10%	12%
	Greenhouse Gas Net Emissions Scopes 1+2 <sup>4</sup>	-795 T CO <sub>2e</sub>	No increase	-3% gross emissions	-3% gross emissions

CUSTOMERS	Ferry sector revenue vs prior year	-2.6%	2.4%	6.3%	1.8%
	Export Log volume (JAS)	554,767	600,000	720,000	720,000
	Cruise ships (number visited)	49	12	15	25
	Marina Berth occupancy	94.3%	92.0%	94.0%	80.0% <sup>3</sup>
	Marina Boatshed occupancy	99.4%	95.5%	99.5%	99.5%

FINANCIAL	Projected NOPAT <sup>1</sup> (excluding asset and derivative revaluations)	\$7.08m	\$6.40m	\$7.25m	\$8.06m
	NOPAT <sup>1</sup> /Return on average Shareholder Funds	4.7%	4.1%	4.5%	4.9%
	EBITDA <sup>2</sup> (exclusive non cash revaluations)	\$15.20m	\$13.38m	\$15.73m	\$17.81m
	<b>Equity Ratio</b>	74.1%	65.6%	55.7%	50.4%

<sup>1</sup> NOPAT = Net Operating Profit after Tax

<sup>2</sup> EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation

<sup>3</sup> NWWaikawa Marina + 252 berths to stock start 2022/23; estimate 40% full by FY2023 thus estimate 20% average occupancy for year

<sup>4</sup> GHG Net Emissions = Scopes 1 + 2 emissions (715 T CO<sub>2</sub>e) offset by GHG reductions Shakespeare Bay forest (-1,509 CO<sub>2</sub>e) = -795 T CO<sub>2</sub>e

## 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 MDCH's 30 June 2020 Annual Report and available on Council's website

<https://www.marlborough.govt.nz/your-council/mdc-holdings-limited>

## 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, excluding fair value movements, available. The budgeted distribution for 2022 is \$2.76 million.

## 7. Corporate Governance

This statement gives readers an overview of 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 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 seven Directors: Mayor, two Councilors, three external Directors and the Council's Chief Executive. The Mayor and Councilor 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 and any increases are based on the median movement in Non-Executive Director Fees for the previous year. 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*

Each subsidiary 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 Intent

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

(b) Financial Reports

An Annual and Half Yearly 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 reports 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.

**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 for 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 \$9.06 million at 30 June 2021 (\$9.30 million actual at 30 June 2020).

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.

## MDC HOLDINGS LIMITED - BUDGET

FOR THE FINANCIAL YEAR ENDING 30 JUNE 2022

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 2022 budget outlined below:

- That PML will have borrowings of \$45.0 million at the end of the budget year.
- That MAL will have borrowings of \$5.1 million at the end of the budget year.
- That MDCH will have total debt of \$70.7 million.
- That the proposed Capital Expenditure requiring finance will occur as scheduled.
- MDCH interest rates were calculated using the swap rates to maturity and floating rates ranging from 0.66% - 0.95% for the remainder (floating) portion of debt.
- Dividends will be paid by PML as they have budgeted.

### MDC Holdings Limited (Parent) Proposed Income Statement

for the 12 months to:

	Actual	Forecast	Budget		
	Jun-20	Jun-21	Jun-22	Jun-23	Jun-24
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Income</b>					
Interest income	1,154	1,031	1,009	1,062	962
Dividend income	3,424	3,151	3,309	3,532	4,146
Finance fee income	3	3	3	3	3
Subvention income	213	203	213	214	224
<b>Total Income</b>	<b>4,794</b>	<b>4,388</b>	<b>4,534</b>	<b>4,811</b>	<b>5,335</b>
Administration costs	56	60	62	61	65
Employee benefits expense	68	75	76	72	73
Interest expense	1,794	1,622	1,633	1,696	1,626
Loss on financial derivatives	598	-	-	-	-
<b>Total operating expenditure</b>	<b>2,516</b>	<b>1,757</b>	<b>1,771</b>	<b>1,829</b>	<b>1,764</b>
<b>Profit before income tax</b>	<b>2,278</b>	<b>2,631</b>	<b>2,763</b>	<b>2,981</b>	<b>3,572</b>
Income tax (expense)/credit	-	-	-	-	-
<b>Profit after income tax</b>	<b>2,278</b>	<b>2,631</b>	<b>2,763</b>	<b>2,981</b>	<b>3,572</b>
<i>Notes:</i>					
<i>Profit (excl. derivatives revaluations)</i>	<i>2,876</i>	<i>2,631</i>	<i>2,763</i>	<i>2,981</i>	<i>3,572</i>
<i>MDCH net finance costs (excl. derivatives revals)</i>	<i>640</i>	<i>591</i>	<i>624</i>	<i>634</i>	<i>664</i>
<i>Total received from PML (dividend &amp; subvention)</i>	<i>3,637</i>	<i>3,354</i>	<i>3,522</i>	<i>3,746</i>	<i>4,370</i>