



## **STATEMENT OF INTENT**

**FOR THE FINANCIAL YEAR ENDING 30 JUNE 2020**

**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.

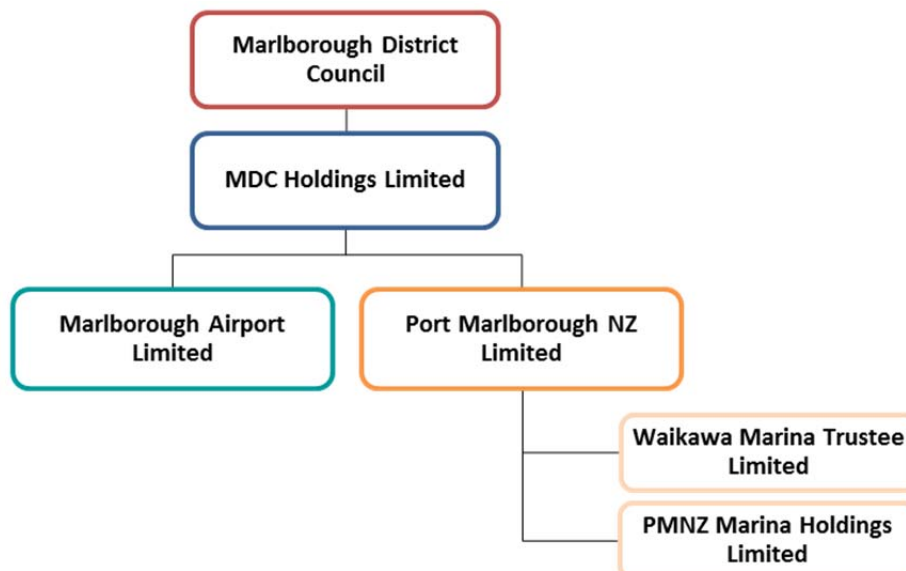
### **2. MDCH has the following objectives**

- (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 2019-20 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 SOI and Annual Report; and
- a report on the steps taken to ensure shareholder value is being maximized, on a regular basis.

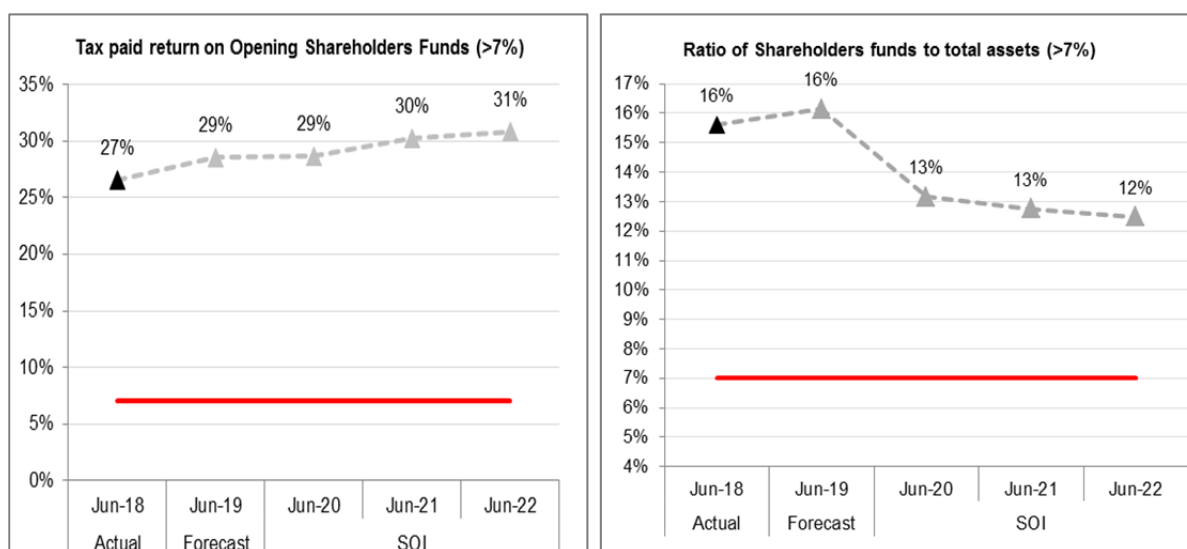
(c) Develop a letter of shareholder expectations by 31 December, should it have any specific expectations it wants the subsidiary to incorporate into its forthcoming SOI.

*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.

<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 2019-20 SOI are as follows:

### Our People

Objective	Activity/KPI	2020 Target
Ensure a safe and healthy environment for workers, visitors and stakeholders.	Continuous improvements in reducing health & safety risk.	100% compliant with Health & Safety at Work Act (2015) and the NZCAA rules & regulations.
	Continuous improvement in staff engagement, support & well-being.	Annual appraisals completed. Staff professional development plans are agreed and implemented.
	Training – hiring the right people for the right positions.	Staff structure and accountabilities are allocated and documented.  Position descriptions reviewed annually.

### Our Customers

Objective	Activity/KPI	2020 Target
Be a welcoming gateway for travellers and airlines and pursue opportunities to increase the value of commercial activities.	Analyse customer survey results.	Identify key areas and implement improvements in a timely fashion.
	Encourage new route discussions with airlines and foster growth on existing ones.	320,000 passengers.
	Offer new or improved services that maximise customer spend per budget.	Landside revenue per passenger > \$3.5*.

\*Landside revenue excludes aeronautical, investment property and financial revenue.

### Infrastructure

Objective	Activity/KPI	2020 Target
Facilitate economic development through timely investment in infrastructure that meets with key stakeholder requirements and is in harmony with the strategic plan.	Increase car parking capacity.	Phase 1 of car park extension completed by 30 September 2019.

## Financial

Objective	Activity/KPI	2020 Target
Manage financial performance to ensure MAL achieves its strategic goals, maintains a sustainable business.	Achieve Profit target as set out in the Budget.	<b>EBITDAF</b> >\$840,000 <sup>1</sup> .
	Maintain a sustainable financial position as set out in the Budget.	<b>Cash flow from operations</b> >\$950,000 <sup>1</sup> <b>SH funds/Total assets</b> >34% <sup>2</sup> <b>Debt reduction</b> >\$500,000.
	Timely and accurate financial reports to comply with relevant Statutory requirements.	Unqualified audit opinion presented to the shareholder by 30 September 2019

<sup>1</sup> Earnings before interest, taxation, depreciation, amortisation and fair value movements (movements in fair value are not budgeted)

<sup>2</sup> Shareholder Funds to Total Assets; Average equity/Average total assets; this measure is required by the Local Government Act to be included in this SOL.

## Future business & Sustainability

Objective	Activity/KPI	2020 Target
Maintain certification as an airport operator through policy and programmes that operate effectively and reflect our commitment to a sustainable and successful airport business.	Maintain CAA Part 139 Certification.	100% compliant.
	Successfully promote waste management minimisation and energy consumption reduction per the Environmental and Waste Management Plan.	Waste management & reduction culture firmly embedded in organisation.  Adopt & implement Tourism Industry Association sustainability programme.
	Review the strategic plan.	Annual assessment of whether airport capabilities and development projects are in harmony with the long-term strategic plan.

## Risk & Compliance

Objective	Activity/KPI	2020 Target
All risks managed and industry best practice adhered to.	Safety management system.	The SMS is present and effective. The airport is adequately staffed and an appropriate SMS software package installed. It is reviewed safe and effective.
	Identify and control hazards and risks to aviation and airport related operations.	Risks identified and controlled to as low as reasonably practical (ALARP).
	CAA audit.	No major findings. Minor findings addressed and effectively managed or resolved.

## MAL Medium Term Milestones & Activities

2020/21 – 2021/22

Strategy	Activity/Milestone
<b>Customers</b>	New air routes or more competition on existing routes.
	Passengers > 326,000 by June 2021, passengers > 332,000 by June 2022.
	Commercial earnings per passenger > \$3.85 by June 2022.
<b>Infrastructure</b>	Phase 2 parking plan to commence by June 2022-23.
	New Code C apron(s) to allow terminal parking for third- fourth Q300/ATR. Feasibility study to commence by June 2021.
	Freight hub completed by June 2022.
<b>Financial</b>	EBITDAF pa > \$1.1m by June 2022.
	Cashflow from operations > \$1.2 million by June 2022.
	Shareholder funds/Total assets > 40% by June 2022.
	Borrowings < \$1.5 million.
<b>Risk &amp; Compliance</b>	Safety management system implemented & operating effectively.
	Safety culture firmly embedded throughout company and airport tenants.
	No major CAA findings from audit or accidents.
<b>People</b>	Establish key organisational structure to manage with expected long-term growth and development.
	The right people in key positions.
	Ongoing development of skills, health & safety and professional development.
<b>Sustainability</b>	Successfully promote waste management minimisation and energy consumption reduction per the Environmental and Waste Management Plan.
	Sustainability best practice well embedded in company culture.
	Implement Tourism NZ sustainability measures.

### 4.3 PML performance targets from PML 2018-19 SCI are as follows:

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

2019 \$7.83m

2020 \$8.31m

2021 \$8.19m

Performance shall be judged against the following measures:

Perspective	KPI	Actual	Target		
		17 - 18	18 - 19	19 - 20	20 - 21
HEALTH AND SAFETY	Lag Indicators – Lost Time injuries (LTI) per 100,000 work hours	0	0	0	0
	Medical Treatment injuries (MTI) per 100,000 work hours	4	<4	<3	<2
	Lead Indicators – Near Hits Reported	23	30	35	40
	Annual health checks made available to all permanent staff	100%	100%	100%	100%

ENVIRONMENT	Number of incidents of harbor pollution caused by PMNZ	Actual	Nil	Nil	Nil
	Storm water and air discharge monitoring for Resource Consents are met	Not measured	18 - 19	19 - 20	20 - 21

CUSTOMERS	Ferry freight movement (% volume movement to prior year)	5.5%	2.0%	2.0%	2.0%
	Export Log volume (JAS)	678,933	700,000	720,000	720,000
	Cruise ships (number visited)	41	41	41	41
	Marina Berth occupancy	91.8%	91.0%	92.0%	93.0%
	Marina Boatshed occupancy	99.6%	99.0%	99.0%	99.0%

FINANCIAL	NOPAT/Return on average Shareholder Funds <sup>1</sup> EBITDA <sup>2</sup> (exclusive non cash revaluations)	6.2%	6.0%	6.2%	5.9%
		\$14.38m	\$15.05m	\$16.67m	\$17.21m
	Equity Ratio	74.9%	71.4%	69.7%	65.0%

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

<sup>2</sup> 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 2018 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 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 Councilors, two 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. 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 \$10,258,000 at 30 June 2019 (\$10,049,000 actual at 30 June 2018).

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 – Budget

### MDC HOLDINGS LIMITED - BUDGET

FOR THE FINANCIAL YEAR ENDING 30 JUNE 2020

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 2020 budget outlined below:

- That PML will have borrowings of \$43.5 million at the end of the budget year.
- That MAL will have borrowings of \$2.29 million at the end of the budget year.
- That MDCH will have total debt of \$66.39 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.
- Dividends will be paid by PML as they have budgeted.

<b>MDC Holdings Limited (Parent)</b>						
<b>Proposed Income Statement</b>						
<b>for the 12 months to:</b>						
<i>Notes</i>	<b>Actual</b>	<b>Forecast</b>	<b>Budget</b>			
	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22</b>	
	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>	
<b>Income</b>						
Interest income	a	1,439	1,344	1,300	2,266	2,328
Dividend income		3,125	3,470	3,592	3,794	3,930
Subvention income	b	239	232	237	238	242
<b>Total Income</b>		<b>4,803</b>	<b>5,046</b>	<b>5,129</b>	<b>6,297</b>	<b>6,500</b>
Administration costs	c	53	55	56	57	70
Employee benefits expense	d	63	66	68	69	71
Interest expense	a	2,176	2,053	2,022	2,988	3,050
Loss on financial derivatives	e	126	152	-	-	-
<b>Total operating expenditure</b>		<b>2,418</b>	<b>2,326</b>	<b>2,146</b>	<b>3,114</b>	<b>3,191</b>
<b>Profit before income tax</b>		<b>2,385</b>	<b>2,720</b>	<b>2,983</b>	<b>3,184</b>	<b>3,309</b>
Income tax (expense)/credit		-	-	-	-	-
<b>Profit after income tax</b>		<b>2,385</b>	<b>2,720</b>	<b>2,983</b>	<b>3,184</b>	<b>3,309</b>
<b>Notes:</b>						
<i>Profit (excl. derivatives revaluations)</i>		<b>2,511</b>	<b>2,872</b>	<b>2,983</b>	<b>3,184</b>	<b>3,309</b>
<i>MDCH net finance costs (excl. derivatives revals)</i>		<b>737</b>	<b>709</b>	<b>722</b>	<b>722</b>	<b>722</b>
<i>Total received from PML (dividend &amp; subvention)</i>		<b>3,364</b>	<b>3,702</b>	<b>3,829</b>	<b>4,032</b>	<b>4,172</b>

## Appendix 3 – Legal Compliance

### LEGAL COMPLIANCE

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

<p>(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:</p>		
		<b>SOI Section</b>
(a)	the objectives of the group; and	2
(b)	a statement of the Board's approach to governance of the group; and	7
(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	4.1
(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