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**MDC  
HOLDINGS LIMITED**

## **STATEMENT OF INTENT**

**FOR THE FINANCIAL YEAR ENDING 30 JUNE 2023**

**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 Statement of Corporate Intent (SCI) / SOI are completed by these companies for consideration and approval by MDCH.

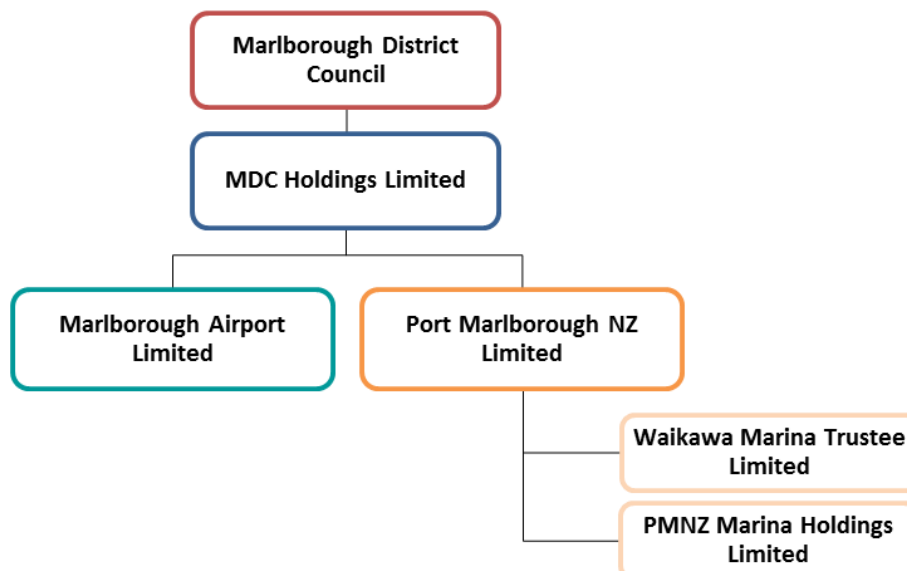
### **2. MDCH has the following objectives**

- (a) to operate as a successful holding company, in both 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

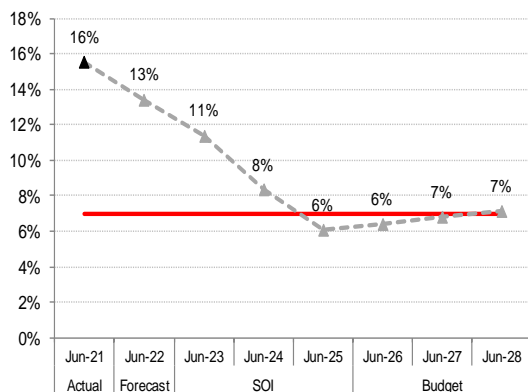
### 4.1 MDCH performance targets for 2022-23 are as follows:

Activity	Key performance indicators and targets
<b>Funding</b>	<p>(a) Adequate and cost effective debt facilities provided for:</p> <ul style="list-style-type: none"> <li>• PML and its subsidiaries; and</li> <li>• MAL</li> </ul> <p>through continued review of their financing needs and awareness of market offerings.</p>

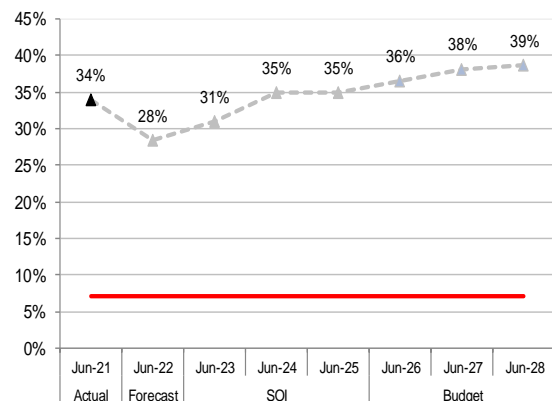
Activity	Key performance indicators and targets
<b>Governance</b>	(b) A good ongoing working relationship with subsidiaries is facilitated and their performance is monitored, including: <ul style="list-style-type: none"> <li>reports and presentations from the Chair and Chief Executive of PML on current issues, the six monthly results, Draft SCI and Annual Report; and</li> <li>a report on the steps taken to ensure shareholder value is being maximized, on a regular basis.</li> </ul>
	(c) A letter of shareholder expectations is developed by 31 December, should it have any specific expectations it wants the subsidiary to incorporate into its forth coming SOI/SCI.
<b>Financial</b> <sup>1</sup>	(d) The ratio of shareholders' funds <sup>3</sup> to total assets <sup>2</sup> to be greater than 12% for the 2022/23 year. The long-term ratio of shareholders' funds <sup>3</sup> to total assets is to be greater than 7%.
	(e) Return after tax (excluding fair value movements) on opening shareholders' funds <sup>3</sup> to be greater than 12%. The long-term return after tax (excluding fair value movements) on opening shareholders' funds <sup>3</sup> is to be greater than 7%.

Overview of MDCH financial targets:

Ratio of Shareholders Funds to total assets (>7%)



Tax paid return on opening Shareholders Funds (>7%)



<sup>1</sup> The financial ratios will be reviewed annually in light of projected cash flows and the performance of 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> 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).

<sup>3</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.

## 4.2 MAL performance targets from the 2022/23 SOI

Objective	Activity/KPI	2023 Target
<b>People</b>		
Be a welcoming gateway for travellers and ensure a safe and healthy environment for staff and airport tenants.	Passenger numbers.	285,000 passengers.
	Identify hazards and control or eliminate health & safety risks.	No issues identified under the Health & Safety at Work Act (2015) and the NZCAA Part 139 Certificate rules & regulations.
	Lost time injuries.	Nil.
	Living wage accreditation.	Achieved.
<b>Infrastructure</b>		
Facilitate economic development through timely investment in infrastructure.	Capital Expenditure.	Complete programmed capital expenditure within budget.
	Improve access to the front of the terminal.	Entrance upgrade completed.
<b>Financial</b>		
Manage financial performance to ensure MAL achieves its strategic goals and maintains a financially sustainable business.	Achieve profit targets as set out in the budget.	<b>NPAT<sup>2</sup></b> < \$393,000 (deficit) <b>EBITDAF<sup>3</sup></b> >\$ 620,000
	Maintain a sustainable financial position as set out in the budget.	<b>Cash flow from operations</b> >\$1.25 million (surplus). <b>SH funds/Total assets</b> >17.3% <sup>4</sup> <b>Peak debt</b> <\$5.5 million.
<b>Risk &amp; Compliance</b>		
All known risks managed and industry best practice adhered to.	Safety management system.	Risk Rating <7 (maximum of 25)
	Independent (annual) internal audit and Civil Aviation Authority (CAA) external audit.	Respond to any finding(s) within four weeks.
	Ensure business continuity and emergency plans are robust	Test emergency plans through at least one practice exercise involving all stakeholders.

Objective	Activity/KPI	2023 Target
<b>Sustainability</b>		
<p>Manage Company operations to ensure efficient and effective environmental sustainability alongside other strategic objectives.</p> <p>This is an area of ongoing strategic, policy and programme development.</p>	Review the strategic plan.	Complete an annual assessment of whether airport capabilities and development projects are in harmony with the long-term strategic plan.
	Waste to Landfill (tonnes) Recycling (tonnes)	5% reduction 5% increase (i.e., overall waste reduction)
	Minimise, and as possible reduce, energy consumption as per the Environmental and Waste Management Plan.	Replace second light tower bulbs with LED. Investigate solar options for existing consumption and future projects.

<sup>1</sup> Landside revenue excludes aeronautical, investment property, cost recovery and financial revenue.

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

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

<sup>4</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 SOI.

### 4.3 PML's 2021/22 SCI measures of success

Perspective	Key performance indicator	Actual	Target		
		20/21	21/22	22/23	23/24
People	Preventative Action to Incident Ratio	3:5	10:1	20:1	30:1
	Corrective Action Close Out on Time	N/A	80%	90%	100%
	LTI <sup>1</sup> per 100,000 work hrs	1.6	<0.8	<0.5	<0.5
	Annual health checks and healthcare insurance available for permanent staff	N/A	80%	90%	100%
	Living Wage Accreditation	N/A	Achieved	Achieved	Achieved

Planet	Fresh water withdrawal (Megalitres)	37	Nil Increase	Nil Increase	Nil Increase
	Waste to landfill (Tonnes)	640	-5%	-5%	-5%
	Recycling (Tonnes)	94	+10%	+6%	+3%
	Recycling as % of general waste to landfill	4.8%	8%	9%	10%
	Greenhouse Gas Net Emissions <sup>2</sup> (Tonnes of CO2 equivalent)	-995	-800	-820	-840

Perspective	Key performance indicator	Actual	Target		
		20/21	21/22	22/23	23/24

Prosperity	Projected NOPAT <sup>3</sup> (excluding asset and derivative revaluations)	\$7.04m	\$8.09m	\$9.36m	\$9.73m
	NOPAT <sup>3</sup> / Return on average Shareholder's Funds	4.49%	5.2%	5.7%	5.8%
	EBITDA <sup>4</sup> (excluding asset and derivative revaluations)	\$15.48m	\$15.60m	\$18.57m	\$19.77m
	Equity Ratio	75.1%	66.1%	57.4%	52.0%

Partnerships	Invest 1% of EBIT <sup>5</sup> (three year rolling average) in community sponsorships and programmes	N/A	\$0.11m	\$0.13m	\$0.14m
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1 LTI = Lost Time Injury

2 Greenhouse Gas Net Emissions = Scopes 1 +2 emissions

3 NOPAT = Net Operating Profit after Tax

4 EBITDA = Earnings before interest, Tax, Depreciation and Amortisation

5 EBIT = Earnings before interest and tax

6 N/A = Not applicable to that year

## 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 2021 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 2023 is \$2.99 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, 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 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 \$11.17 million at 30 June 2022 (\$10.58 million actual at 30 June 2021).

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 2023

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 2023 budget outlined below:

- That PML will have borrowings of \$62.4 million at the end of the budget year.
- That MAL will have borrowings of \$5.3 million at the end of the budget year.
- That MDCH will have total debt of \$88.2 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 1.30% - 1.53% 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-21 \$ '000	Jun-22 \$ '000	Jun-23 \$ '000	Jun-24 \$ '000	Jun-25 \$ '000
<b>Income</b>					
Interest income	998	1,104	1,136	1,823	5,270
Dividend income	3,641	3,531	4,006	4,611	4,846
Finance fee income	3	3	3	3	3
Subvention income	189	207	213	217	226
Gain on financial derivatives	1,000	742	-	-	-
<b>Total Income</b>	<b>5,831</b>	<b>5,587</b>	<b>5,358</b>	<b>6,654</b>	<b>10,345</b>
Administration costs	54	61	62	63	65
Employee benefits expense	76	81	79	81	83
Interest expense	1,546	1,704	1,758	2,455	5,932
<b>Total operating expenditure</b>	<b>1,676</b>	<b>1,846</b>	<b>1,900</b>	<b>2,599</b>	<b>6,080</b>
<b>Profit before income tax</b>	<b>4,155</b>	<b>3,741</b>	<b>3,459</b>	<b>4,055</b>	<b>4,265</b>
Income tax (expense)/credit	-	-	-	-	-
<b>Profit after income tax</b>	<b>4,155</b>	<b>3,741</b>	<b>3,459</b>	<b>4,055</b>	<b>4,265</b>
<b>Notes:</b>					
<i>Profit (excl. derivatives revaluations)</i>	<b>3,155</b>	<b>2,999</b>	<b>3,459</b>	<b>4,055</b>	<b>4,265</b>
<i>MDCH net finance costs (excl. derivatives revals)</i>	<b>549</b>	<b>618</b>	<b>640</b>	<b>650</b>	<b>680</b>
<i>Total received from PML (dividend &amp; subvention)</i>	<b>3,830</b>	<b>3,738</b>	<b>4,219</b>	<b>4,828</b>	<b>5,072</b>