



PORT marlborough
NEW ZEALAND LTD

PORT MARLBOROUGH NEW ZEALAND LIMITED

STATEMENT OF CORPORATE INTENT

2018 / 2019

Date: 21 September 2018

INTRODUCTION

This Statement of Corporate Intent (SCI) is for Port Marlborough New Zealand Limited and its subsidiaries (referred to as PMNZ or the Company) and covers the period from 1 July 2018 to 30 June 2021.

PMNZ is a Port Company under the Port Companies Act 1988 and consequently operates under a commercial imperative.

Port Marlborough's profits are distributed by way of dividend to its sole Shareholder, MDC Holdings Limited, with these financial benefits ultimately accruing to the residents and ratepayers of Marlborough through Marlborough District Council.

This SCI has been prepared in accordance with Section 9 of the Port Companies Act 1988 and is reviewed annually in accordance with Sections 8 and 10 of the Act.

PURPOSE

The purpose of this Statement of Corporate Intent (SCI) is to:

- State publicly the activities and intentions of PMNZ and the objectives to which those activities will contribute; and
- Provide a basis for the accountability of the Board of Directors of PMNZ to the Shareholder for the performance of the Company and its subsidiaries.

NATURE AND SCOPE OF ACTIVITIES

Port Marlborough New Zealand Limited provides:

1. Port facilities and services for Cook Strait freight and passenger ferry services including ro-ro berths, two passenger terminals and associated facilities.
2. Wharf facilities for bulk cargo ships, cruise ships, fishing vessels, freight barges and vessels used in the marine farming industry.
3. Cargo storage areas, weighbridge.
4. Marinas and boat storage facilities for recreational craft and facilities for associated businesses, including travel lift and hard stand facilities at Waikawa.
5. Facilities and services related to the above activities.

OBJECTIVES

1. The principal objective of PMNZ is to operate as a successful business (Section 5, Port Companies Act 1988) by demonstrating corporate social responsibility and providing a sustainable return to the Shareholder. PMNZ intends to:
 - Further enhance the company's position as the prime inter-island ferry port for the South Island.
 - Optimise the Company's natural advantage as a sheltered deep water Port and its existing and potential future facilities.
 - Optimise use of the Port as a key logistics link for regional import and export.

- Further develop Picton's international reputation as a premium cruise ship destination.
 - Advance the company's position as the principal provider of port facilities for the marine farming industry and to increase use of the company's facilities by fishing vessels.
 - Promote and provide for recreational and small-craft commercial boating in the Marlborough Sounds through provision of excellent commercial marinas and related facilities.
2. To ensure that the Company's operations are performed in an efficient and safe manner. PMNZ intends to:
 - Embed a real, vital and all-encompassing health and safety culture in the workplace, supported by best-practice systems, training and management.
 - Continuously develop operational efficiencies through systematic review and improvement of resourcing, systems and procedures.
 - Complete risk assessments and implement any mitigating procedures relating to the Port and Harbour Safety Code, which promotes safety and excellence in Marine operations.
 3. That the Company's activities are undertaken with due regard to its environmental and social responsibilities. PMNZ intends to:
 - Take a responsible, proactive approach to environmental leadership and management.
 - Develop an environmental strategy/roadmap setting out clear performance indicators and measurement targets.
 - Comply with all relevant environmental standards through best practice processes and management.
 - Engage openly and constructively with stakeholder communities.
 - Take a socially responsible approach to meeting the company's legal, ethical and economic responsibilities, consistent with the behaviour of a good corporate citizen.
 4. To properly plan and provide for the demand for facilities and services. PMNZ intends to:
 - Undertake a review of the Company's Strategic Plan on an annual basis, including engaging with the Shareholder on significant changes in direction before finalisation by PMNZ.
 - Implement objectives of the Strategic Plan in a timely and efficient manner.
 - Planning to meet the demand for facilities; it may be cost effective to include 'public good' components. Where 'public good' capital expenditure is proposed consultation will be undertaken with the Shareholder.

PERFORMANCE AND OTHER MEASURES

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 harbour pollution caused by PMNZ	Nil	Nil	Nil	Nil
	Stormwater and air discharge monitoring for Resource Consents are met	Not measured	100%	100%	100%

CUSTOMERS	Ferry freight movement (% volume movement to prior year)	5.5%	2.0%	2.0%	2.0%
	Export Log volumes (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's Funds ¹	6.2%	6.0%	6.2%	5.9%
	EBITDA ² (exclude non cash revaluations)	\$14.38m	\$15.05m	\$16.67m	\$17.21m
	Equity Ratio	74.9%	71.4%	69.7%	65.0%

¹ NOPAT = Net Operating Profit After Tax

² EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation

PERFORMANCE RISK

Listed below are key factors which could impact performance:

- Log market price movements
- Marlborough District Council Environment Plan hearing outcomes

DIVIDEND POLICY

A Recommendation on the level of any dividend to be paid will be made by Directors each year. Dividends to shareholders will be maximised consistent with consideration of the current and future capital requirements of the company and its debt : equity ratio.

It is anticipated that distributions will be in the order of 45% of after tax profit as returned to Inland Revenue. Based on the above, projected distributions for the next 3 years are:

2019	\$3.47m
2020	\$3.63m
2021	\$3.71m

The Board will make its best endeavours to distribute the above projections; noting a number of potential projects with significant capital expenditure requirements and benefits to the regional economy.

PROJECTED BORROWINGS

The Directors have adopted a policy of seeking to keep the gearing of the company in a range between 20% and 40% (debt to debt-and-equity) but accept that the debt ratio may fall outside this range at times, that is, prior to, or following, a major planned development.

Projected gearing ratios for the following three years are set out below:

2019	28.6%
2020	30.3%
2021	35.0%

The current level of debt and projections is set out below:

2018	\$27.5m
2019	\$36.0m
2020	\$42.5m
2021	\$59.0m

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

The ratios for the next three years are expected to be:

Shareholder Funds / Total Assets

2019	71.4%
2020	69.7%
2021	65.0%

ACCOUNTING POLICIES

Policy application will be made consistent with, and conform, to:

- The legal requirements of the Companies Act 1993
- Generally Accepted Accounting Principles (NZ GAAP)
- Financial Reporting Act 2013
- New Zealand equivalents to the International Financial Reporting Standards (NZIFRS)
- Other applicable regulatory and statutory requirements.

The latest published Annual Report including the Statement of Accounting Policies is available on the Company's website www.portmarlborough.co.nz

PROVISION OF INFORMATION TO SHAREHOLDERS

The following information will be provided to shareholders:

1. An annual report as required by Section 16(3) of the Port Companies Act 1988 including:
 - a) A report of the operations of the Port Company and those of its subsidiaries during the financial year; and
 - b) Audited consolidated financial statements for that financial year consisting of:
 - (i) Statement of Comprehensive Income, Balance Sheet and Cash Flow Statement; and

- (ii) Such other statements as may be necessary to show the financial position of Port Marlborough and its subsidiaries and the financial results of the operations during the financial year; and
- (iii) The audit report on those financial statements.

The report will contain such information as is necessary to enable an informed assessment of the operations of the company and its subsidiaries, including a comparison of the performance of the company and its subsidiaries with this Statement of Corporate Intent and it will state the maximum dividend recommended to be paid by the Company to its Shareholders.

2. A half-year report covering a Statement of Financial Performance, abbreviated Statement of Financial Position, Statement of Cash flows, performance indicators, commentary on activities and such other information as the Directors may consider necessary.
3. Briefing to be provided to the Shareholder, following circulation of Annual and Half Year reports.
4. The shareholder will be regularly briefed on significant new capital projects.
5. Any other information reasonably required by the shareholder.

PROCEDURES FOR SHARE SUBSCRIPTIONS OR PURCHASES

The company will only invest in another business when it is consistent with the nature and scope of activities and objectives contained in this SCI.

In cases where the company intends to acquire either by single transaction or any series of transactions, through the purchase of shares or by other means:

- (i) A business outside the company's current nature, scope and objectives; and/or
- (ii) 20% or more of a business; and/or
- (iii) An activity where the cost is more than 10% of the company's shareholder funds; and/or
- (iv) A business or activity outside the Marlborough District;

then it will give prior written notice to the shareholders of its intention.

DIRECTOR'S ESTIMATE OF COMPANY VALUE

The director's estimate that the opening balance of Shareholder's funds in the annual accounts will represent the value of the company. The directors will advise the Shareholders on an annual basis if they believe the value to differ materially from this state.

As part of adoption of IFRS, land, buildings and port infrastructure are valued on a regular basis by independent valuation.

The opening balance of Shareholder Funds at 1 July 2018 is \$131.75m (2017: \$124.61m)

APPENDIX 1

SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group consists of

- Waikawa Marina Trustee Limited
- PMNZ Marina Holdings Limited

Waikawa Marina Trustee Limited and PMNZ Marina Holdings Limited were incorporated in September 1997 to facilitate the sale of long term berth entitlements in the Waikawa Marina extension.

1. The company shall ensure at all times that in the case of new subsidiaries:
 - 1.1 Control of the affairs of every subsidiary of the company is exercised by a majority of the Directors of that subsidiary.
 - 1.2 A majority of the Directors of every subsidiary of the company are persons who are also Directors or Employees of the company or who have been approved by the shareholders for appointment as Directors of the subsidiary.
2. Without the prior consent of the Shareholders, neither the Company nor any subsidiary of the Company shall sell or otherwise dispose of, whether by a single transaction or any series of transactions and whether by sale of assets or shares, the whole or any substantial part of the business or undertaking of the Company and its subsidiaries (taken as a whole).
3. Where the Company or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of the company) it will not sell or otherwise dispose of any shares in that company without first giving written notice to the Shareholders of the disposition.

The term “share” has the same meaning as in Section 2 of the State-owned Enterprises Act 1986 and the term “subsidiary” has the same meaning as in Section 155 of the Companies Act 1993.