



INVERCARGILL CITY HOLDINGS LIMITED

STATEMENT OF INTENT FOR THE FINANCIAL YEAR ENDING 2019

TABLE OF CONTENTS

	PAGE
PREAMBLE	3
OBJECTIVES	3
NATURE AND SCOPE OF ACTIVITIES	3
PERFORMANCE TARGETS	5
FINANCIAL FORECASTS	6
RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS	6
COMMERCIAL VALUE OF THE SHAREHOLDERS INVESTMENTS	6
REPORTING TO SHAREHOLDER	7
DIVIDEND POLICY	8
PROCEDURES FOR ACQUISITION OF OTHER INTERESTS	8
COMPENSATION FROM LOCAL AUTHORITIES	8
OTHER MATTERS AGREED AS BETWEEN THE DIRECTORATE AND ITS SHAREHOLDER	8
GOVERNANCE	8
ACCOUNTING POLICIES	9

PREAMBLE

As required by Section 64 of the Local Government Act 2002 the Directors have prepared this Statement of Intent.

OBJECTIVES

The objectives are those as provided in Section 59 of the Local Government Act 2002 including the following specific objectives:

- To provide steadily increasing revenues across the group
- To provide reasonable returns to its shareholder Invercargill City Council that are consistent and steadily increasing
- To keep the Invercargill City Council informed of matters of substance affecting the group.
- To ensure that regular reporting of results occurs to Invercargill City Holdings Limited from subsidiaries.
- To monitor the performance of each subsidiary against their stated performance objectives and ensure they have proper governance procedures in place.
- To promote rigorous health and safety management and reporting within the group.
- To ensure that regular reporting of results occurs to Invercargill City Council.
- To act generally as a responsible corporate citizen.

NATURE AND SCOPE OF ACTIVITIES

The nature of the Invercargill City Holdings Limited activities will be that of normal policy decisions of a Holding Company together with:

- (a) Providing input into the Statement of Intent of each of its subsidiaries to ensure that they reflect the objectives and policies of Invercargill City Council in such manner and to such extent as Invercargill City Holdings Limited is lawfully entitled to do so; and,
- (b) Monitoring the performance of the individual subsidiary companies.
- (c) In relation to Invercargill City Property Limited, no sales will be to an entity that may bring the City into disrepute and all sales will reflect Council's vision of economic and population growth.
- (d) Providing funding and treasury services to the subsidiary companies.

ICHL exercises its monitoring role through a variety of means, including reviewing Statements of Intent provided by subsidiary companies, reviewing periodic financial, strategic and health and safety reporting by the subsidiaries, monitoring business developments, liaising with subsidiary boards as necessary, making director appointments and dealing with other issues as they arise.

The undertaking by Invercargill City Holdings Limited of any activity of a nature or scope not provided for would be subject to the prior approval of the Invercargill City Holdings Limited shareholders.

In particular the prior approval of the shareholder would be required to the company forming, acquiring or divesting an interest in any subsidiary company and in the case of each subsidiary the Directors of Invercargill City Holdings Limited shall not, without the prior approval of the shareholder approve any investment which is contrary to that subsidiary's Constitution.

Activities of the subsidiary companies are as follows:

ELECTRICITY INVERCARGILL LIMITED (EIL)

EIL owns and operates the electricity network in Invercargill which includes 665km of predominantly underground cables. This is one of the best performing networks in New Zealand in terms of reliability and efficiency and has more than 17,000 connections. Electricity retailers pay EIL for this network delivery service and in turn charge homes and businesses for it.

EIL also has partial ownership of PowerNet, the network management company and other energy related entities including OtagoNet, an electricity distribution entity in Otago and Central Otago, and Roaring Forties which owns generation assets including wind and hydro.

EIL continues to make a commitment to reduce the overall age of the network and continuously improve the assets to ensure safety, capacity and reliability.

INVERCARGILL AIRPORT LIMITED (IAL)

IAL provides all airport related services for Invercargill and is the gateway to the city and the wider Southland region, hosting over 294,000 passengers in the 2017 year.

IAL is 97.2% owned by Invercargill City Holdings Limited and the other 2.8% shareholders are the four local Runanga.

The airport provides an important gateway to the City and region.

The focus for the airport is on infrastructure requirements and developing appropriate asset management processes to ensure that the airport remains operational as a key gateway to the city.

INVERCARGILL CITY FORESTS LTD (ICFL)

ICFL own, maintain, manage and harvest forestry assets.

ICFL maintain a harvest strategy to ensure that the dividend flow back to the shareholder is consistent and maintainable.

ICFL owns Forest Growth Holdings Limited, who aggregates forestry assets into economic units.

INVERCARGILL CITY PROPERTY LTD (ICPL)

ICPL activities are that of a property ownership and management company.

PERFORMANCE TARGETS

The following targets relate to the group of companies consisting of Invercargill City Holdings Limited, Electricity Invercargill Limited, Invercargill City Forests Limited, Invercargill Airport Limited and Invercargill City Property Limited.

Financial

That the following rates of return on equity funds are attained:

	% Before Tax	% After Tax
2018/19	9.78%	7.04%
2019/20	10.26%	7.39%
2020/21	10.16%	7.32%

Other performance measures

In addition to the above financial performance measures, the Invercargill City Holdings Limited board will use the following measures to assess its performance:

All statutory requirements for reporting under the Companies Act 1993 and the Local Government Act 2002 are achieved.

Half yearly financial reports are provided to the shareholder within two months of the end of the period and that the annual statements and report are provided within three months after the end of the financial year.

A draft Statement of Intent will be submitted for approval to Invercargill City Council by 1 March each year.

Invercargill City Holdings Limited will keep Invercargill City Council informed of all significant matters relating to Invercargill City Holdings Limited and its subsidiaries, within the constraints of commercial sensitivity. Invercargill City Holdings Limited will run at least one workshop with Councillors per financial year.

Invercargill City Holdings Limited will maintain contact with subsidiary company boards, and remain aware of their strategic business issues. Invercargill City Holdings will meet subsidiary company boards or their representatives at least once per financial year.

FINANCIAL FORECASTS

These consolidated financial forecasts are based on information provided by the subsidiary companies and Invercargill City Holdings Limited own forecasts:

	<i>Year Ending 30 June 2019 (\$'000)</i>	<i>Year Ending 30 June 2020 (\$'000)</i>	<i>Year Ending 30 June 2021 (\$'000)</i>
Gross Revenue	24,706	24,499	23,454
Expenditure	<u>15,238</u>	<u>14,377</u>	<u>13,228</u>
Net Profit (Loss)	9,468	10,122	10,226
Tax	<u>2,651</u>	<u>2,834</u>	<u>2,863</u>
Group Net Profit/(Loss) after tax	6,817	7,288	7,363
Dividend – Invercargill City Council	<u>5,850</u>	<u>6,000</u>	<u>6,000</u>
	967	1,288	1,363

The projected equity of the consolidated company at 30 June is estimated to be as follows:

	<i>Year Ending 30 June 2019 (\$'000)</i>	<i>Year Ending 30 June 2020 (\$'000)</i>	<i>Year Ending 30 June 2021 (\$'000)</i>
Equity	96,781	98,669	100,631

RATIO OF CONSOLIDATED SHAREHOLDER FUNDS TO TOTAL ASSETS

The forecasted ratio of shareholder funds as a percentage of total assets as at 30 June are as follows:

<i>Year</i>	<i>%</i>
2019	31%
2020	30%
2021	30%

For the purpose of this ratio shareholder funds are defined as the paid-up capital plus any retained tax paid profits. They include undistributed profits which have been accumulated in accounts known as either "Revenue Reserves" or "Capital Reserves" and shareholder advances. It is anticipated that the Invercargill City Council shareholder advance (if any) will be subordinated, that is, subject to certain restrictions by the lender.

Total assets are defined as the sum of all current, fixed and investment assets of the group.

COMMERCIAL VALUE OF THE SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in the Company is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

REPORTING TO THE SHAREHOLDER

The following information will be available to the shareholder based on an annual balance date of 30 June.

DRAFT STATEMENT OF INTENT

On or before 1 March each year, the Directors will deliver to the shareholder a Draft Statement of Intent that fulfils the requirements of Section 64 of the Local Government Act 2002.

COMPLETED STATEMENT OF INTENT

On or before 30 June each year the Directors shall deliver to the shareholder a completed Statement of Intent which fulfils the requirements of Section 64 of the Local Government Act 2002.

HALF YEARLY REPORT

Within two months after the end of the first half of each financial year, the Directors shall deliver to the shareholder an unaudited report containing the following information as a minimum in respect of the half-year under review:

- A revenue statement disclosing actual revenue and expenditure, with comparative figures from the previous half yearly report.
- A statement of financial position at the end of the half year.
- A statement of cash flows.
- A commentary on the results for the first six months together with a report on the outlook for the second six months with reference to any significant factors that are likely to have an effect on Invercargill City Holdings Limited's performance, including an estimate of the financial result for the year based on that outlook.

ANNUAL REPORT

Within three months after the end of each financial year, the Directors shall deliver to the shareholder an annual report and audited financial statements in respect of that financial year, containing the following information as a minimum:

- (a) A Director report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend.
- (b) A revenue statement disclosing actual revenue and expenditure, and comparative figures.
- (c) A statement of financial position at the end of the year.
- (d) A statement of cash flows.
- (e) An Auditor's report on the above statements and on the measurement of performance in relation to objectives.

DIVIDEND POLICY

The Directors have agreed that it is prudent to retain a portion of the Company's earnings as a hedge against movements in interest rates and/or income stream. It is anticipated a dividend will be paid by Invercargill City Holdings Limited to the Invercargill City Council of \$5,850,000 in 2018/2019, \$6,000,000 in 2019/2020 and \$6,000,000 in 2020/2021. Any surplus from the Group operation will be used to repay the Invercargill City Holdings Limited debt.

PROCEDURES FOR ACQUISITION OF OTHER INTERESTS

The Company will only invest in the shares of another company or organisation in accordance with the Constitution of the company.

COMPENSATION FROM LOCAL AUTHORITIES

The Directors do not envisage any circumstances arising that would give rise to any claim from any Local Authority during the year.

OTHER MATTERS AGREED AS BETWEEN THE DIRECTORATE AND ITS SHAREHOLDER

The Company has entered into Deeds of Understanding with its subsidiaries imposing upon the companies certain restrictions, requirements and obligations as set out in the Deed.

Invercargill City Holdings Limited has a written agreement with all subsidiaries to fund each company's operating costs, by way of interest bearing loan, on a monthly basis, subject to the provision of annual budgets.

GOVERNANCE

- The Directors of Invercargill City Holdings Limited are appointed by Invercargill City Council to oversee the governance of the company and its subsidiaries and will act in accordance with the guidelines set by the Shareholder.
- The Directors acknowledge their fiduciary responsibilities however the day to day management of the company is delegated to the management team and the external Treasury Manager.
- The Directors hold regular board meetings at which management reports are received and discussed.
- The Board monitors the performance of the subsidiary companies to ensure performance and capability and to identify any areas for improvement.

ACCOUNTING POLICIES

Invercargill City Holdings Limited's accounting policies are consistent with the accounting policies recognised by the External Reporting Board ('XRB').

The accounting policies which materially affect the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

The accounting policies are listed in full in in our most recent annual report.