

SICON LIMITED

STATEMENT OF INTENT FOR THE THREE YEARS COMMENCING 1 JULY 2021

1. INTRODUCTION

SICON Ltd (SICON, the “Company”) is a Council Controlled Organisation (CCO) established by the Selwyn District Council. This Statement of Intent sets out the overall intentions and objectives for the trading period of 1 July 2021 to 30 June 2024.

2. THE OBJECTIVES AND PHILOSOPHY OF THE COMPANY

Principle objective: To be a profitable, sustainable contracting and maintenance business while continuing to provide added value to the Selwyn District Council. SICON will continue to develop relationships outside of the Selwyn District that enhance the company’s sustainability and profitability.

SICON will contribute to the district’s goal “To be a safe place to live, work and play” through its mission statement to “Build and preserve the foundations for communities to thrive”.

In meeting this objective, the following aspects of the company are in place:

Our Business Philosophy

Infrastructure Built on Trust.

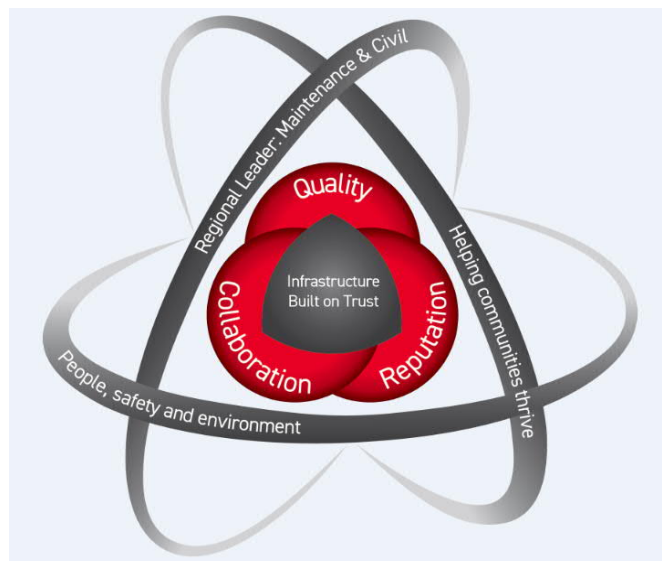
Our Mission

To build and preserve the foundations for communities to thrive.

Our Vision

To be a leading source of horizontal infrastructure through trust, sustainability and progression.

Strategy



Our strategy is based around three key elements: Quality, Collaboration and Reputation.

Values

Integrity in our connections
Pride in our work
Determined in our approach
Reliable in our actions
Innovative in our solutions
Safe in our work practices

3. NATURE OF SCOPE OF ACTIVITIES

SICON will be the provider of quality civil contracting and maintenance services. Consistent with its objectives, the Company will pursue activities designed to ensure the efficient and prudent utilisation of its capital assets and human resources.

4. GOVERNANCE

Role and Responsibility of the Board

The company's shareholder appoints the directors to govern the activities of the company. The Board draws on relevant corporate governance best practice principles to assist and contribute to the performance of the Company. The functions of the Board include:

- Review and approval of corporate strategies, the annual budget and financial plans
- Overseeing and monitoring organisational performance and the achievement of SICON's strategic goals and objectives, in particular as outlined in the Statement of Intent
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with SICON's auditors
- Ensuring there are effective management processes in place
- Working with management to create shareholder value
- Reviewing and approving major corporate initiatives
- Enhancing and protecting the reputation of SICON
- Ensuring the significant risks facing SICON and any subsidiaries have been identified, and appropriate and adequate controls, monitoring and reporting mechanisms are in place and managed
- Reporting to the shareholder
- Appoint the Chief Executive and monitor and manage their performance as required.

The Board's Responsibility to the Shareholder

The Directors are responsible to the shareholder for the performance of SICON in both the short and the longer term and seek to balance these sometimes competing objectives in the best interests of the Company and its shareholder. Their focus is to enhance the interests of the shareholder and other key stakeholders, and to ensure SICON is properly managed.

Board Composition

The composition of the Board of Directors is appointed by the shareholder. The board, including the appointment of a Chairman, is governed by the Constitution.

The Board establishes committees as appropriate to assist in the execution of its duties and to allow detailed consideration of complex issues. There are currently two committees:

- 1 The People & Safety Committee, which was established in 2015, consists of the Board
- 2 The Audit & Risk Committee, which was re-established in 2013, consists of the Board.

The current board consists of 4 board members. With the opportunities currently existing in the market a review of its composition will take place to ensure these opportunities are maximised.

Board Meetings

The Board has statutory responsibility for the affairs and activities of the company, which is achieved through delegation to the Chief Executive who reports monthly to the Board on matters including:

- Financial results against budgets
- Consultation and communications with major clients, Local and Central Government and industry groups
- Compliance with legislation and adhering to commercial best practice
- Fixed asset management
- Human resource management
- Health & Safety management
- Strategy and plan monitoring
- Issues affecting the industry
- Current and future workload
- Future opportunities and threats.

The Board holds eleven Board meetings a year and other special meetings are convened, as required.

Board Performance Review

The Board reviews its performance annually along with the performance of the CEO of the company. The review is designed to align the Board and the CEO with the future development and improvements of the company.

Independent Professional Advice

Directors independently, and the Board and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at SICON's expense, subject to Board approval.

5. PEOPLE & SAFETY

The Company's People and Safety strategy has now expanded to encompass both the previous areas of legislative compliance, human resources, and health & safety best practices, to now also include a comprehensive environmental and quality focus. Outcomes are practically based, ensuring easy and quick implementation, through SICON's collaborative culture.

SICON's People and Safety strategic goals are:

1. Grow capability. Achieved by implementing targeted development programs and through investment in-field staff training, competency assessment, and leadership development
2. Integrate and simplify people, H&S, Environmental and Quality management systems & processes
3. Sustainable cultural practices are adopted
4. Improved quality outcomes for the Company.

FY2022 - FY2024 will see a strong focus on maintaining ISO certifications, embedding new staff to H&S, Quality and Environmental roles, and the focus on new trainee and competency assessment programs.

All policies and procedures are reviewed annually, and risk is managed through daily identification, training (with specific attention given to high-risk activities), competency assessments, safety audits, OFI reporting and actions, accident investigations, and most importantly engagement of staff through a Health and Safety Coalition Group (HSCG). The HSCG continues to be extremely successful in gaining feedback and ideas on all P&S matters and delivering practical solutions.

Our ability to respond to the ongoing Covid-19 threat continues to be both well communicated and effective.

6. DIVIDEND DISTRIBUTION POLICY

The dividend distribution policy is to pay a minimum annual dividend equal to the higher of \$1,200,000 or 50% of the Surplus After Tax of the Company.

Where it is anticipated that the minimum cash payment may impact negatively on the Company's balance sheet or growth strategy, the Directors will discuss options with Selwyn District Council. Any distribution needs to be prudent in the circumstances and meet the solvency test.

7. FINANCIAL PROJECTIONS

SICON Limited Annual Budget

Statement of Financial Performance For the Years Ending

\$000s	2022	2023	2024
Revenue	\$54,743	\$55,838	\$56,954
Expenditure excluding Interest	\$49,177	\$50,093	\$50,908
Depreciation	\$2,494	\$2,306	\$2,200
Amortisation	\$83	\$83	\$83
IFRS16 - Leases	\$100	\$80	\$65
Interest - External	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Expenditure	<u>\$51,854</u>	<u>\$52,562</u>	<u>\$53,256</u>
Surplus before tax	\$2,889	\$3,276	\$3,698
Tax	\$809	\$917	\$1,036
Surplus after tax	<u>\$2,080</u>	<u>\$2,358</u>	<u>\$2,663</u>

Statement of Financial Position

\$000s	2022	2023	2024
Current Assets	\$15,546	\$15,869	\$16,764
Non-Current Assets	<u>\$21,015</u>	<u>\$22,119</u>	<u>\$22,826</u>
Total Assets	\$36,561	\$37,988	\$39,590
Current Liabilities	\$8,324	\$8,572	\$8,842
Non-Current Liabilities	<u>\$4,770</u>	<u>\$4,770</u>	<u>\$4,770</u>
Total Liabilities	\$13,094	\$13,341	\$13,612
Net Assets	<u>\$23,467</u>	<u>\$24,647</u>	<u>\$25,978</u>
Equity	<u>\$23,467</u>	<u>\$24,647</u>	<u>\$25,978</u>

**SICON Limited
Annual Budget**

**Statement of Cash Flows
For the Years Ending**

\$000s	2022	2023	2024
Net Cash Flows from Operating Activities	\$3,841	\$4,995	\$5,216
Net Cash Flows from Investing Activities	(\$3,089)	(\$3,493)	(\$2,990)
Net Cash Flows from Financing Activities	(\$1,040)	(\$1,179)	(\$1,331)
Net Increase/(Decrease) in Cash Flows	(\$288)	\$323	\$895
Opening Cash Position	\$6,870	\$6,582	\$6,905
Closing Cash Position	\$6,582	\$6,905	\$7,800

Financial Performance Targets

\$000s	2022	2023	2024
Projected Revenue	\$54,743	\$55,838	\$56,954
Projected NPBT	\$2,889	\$3,276	\$3,698
Return on Equity	8.9%	9.6%	10.3%
Equity to Total Assets	64.2%	64.9%	65.6%
Total Equity	\$23,467	\$24,647	\$25,978
Liquidity	1.9:1	1.9:1	1.9:1
Ratio of Consolidated Equity to Total Assets	64.2%	64.9%	65.6%

Key Assumptions:

Dividend to SDC per annum is a minimum of \$800,000 per annum

Blakely Brand Name Intangible asset amortised 2022-2024

Bank Interest @ 4.08% payable / 0% receivable

Revenue increases annually at 2%

Costs (exc. Depreciation) increase between 1% and 2% annually

At the time of completing this SOI the impact of 3 new leases has not yet been calculated as per IRFS16.

COVID-19

SICON has reviewed its financial projections in relation to COVID-19 and the likely impact at micro and macro levels.

At a micro level whilst the investment in infrastructure seems to have a strong forward outcome, the complexities of the impact of COVID are not well-known long term. SICON continues to be cautious in its outlook to ensure we are in a stable position to weather the short and long impacts COVID is having on our clients. If the potential workload continues as predicted the significant impact on SICON will be around keeping and attracting skilled staff to meet the demands and timeframes of our clients. We are also now experiencing an increase in cost of materials and this will have some significant impacts on projects in the future.

At a macro level the effects on increased borrowing by the current government, increased material costs and the lack of new potential employees entering the country, will potentially see an overall increase in costs through the infrastructure sector.

8. STRATEGIC DIRECTION

Summary

SICON's strategic focus is to build on the foundation that has been created over the last few years, developing a long term growth strategy. It seeks to position itself in the industry as a leading Tier 2 contractor and look at ways to distinguish itself from its competitors. Our focus will be based around three key areas:

1. **Quality** – ensuring that our quality matches expectations from our clients and stakeholders
2. **Collaboration** – working with clients to deliver cost effective and innovative solutions
3. **Reputation** – to build a brand that attracts high calibre staff and provides a competitive advantage.

SICON has strong relationships with its existing Council and private clients. Its business philosophy "Infrastructure Built on Trust" has been a strength in building the business to where it is today. SICON will be focusing on diversifying its current client base using its existing reputation to open doors with new clients, as well as delivering quality services to win new contracts from existing clients. The company continues to invest heavily in its own digital transformation to provide a dynamic, information rich environment for clients to build sound business decisions on.

Key SICON and Selwyn District Council managers will meet on a regular basis to assess the Council's list of available capital expenditure projects to be completed during the current financial year, with a view to utilising available resource to advance completion of these projects in a timely and affordable manner for both parties. Regular reports will be produced to assist discussions. Completion reports, identifying both fiscal and community benefit are also to be prepared and circulated to each governance executive meeting during the financial year.

Environmental & Sustainable Leadership

The Company's successful investment in external environmental and health & safety expertise has led to the accelerated delivery of Environmental Management Plans for solid waste, greenhouse gas emissions, energy, and water along with gaining certification to the associated ISO standards.

The company is now applying resource to delivering on these four plans with a focus on "ABC":



Act (embedding sustainability into our work habits)



Buy (procurement with a sustainable mindset)



Connect (working with others with a sustainable mindset and on projects to progress our management plans).

“ABC” initiatives are listed in each of the four environmental management plans and will be a point of focus going forward.

Greenhouse gases emissions is the company’s biggest contributor to climate change and will be a significant focus for the company over the next 5 years. All proposed vehicles purchases must incorporate an electric and hybrid vehicle analysis and where appropriate the introduction of these vehicles into the fleet will be committed to.

As a first step an electric pool vehicle will be introduced into the fleet by the end of the 2021 calendar year.

We will also explore native planting opportunities in Selwyn District to offset carbon emissions.

Community Engagement

The Company's mission in helping communities to thrive goes beyond physical infrastructure alone. We recognise the importance of social, economic, environmental, and cultural elements to a sustainable community and will look for opportunities to contribute to the growth of the communities within which we work across all these elements.

The company intends to actively engage in a cultural journey and build on its current relationships with local Iwi, Runanga and our stakeholder community.

Key Performance Targets

Specific performance targets for the year commencing 1 July 2021;

- (1) Financial Performance:
Return After Tax to Opening Equity 8.0% (minimum)
- (2) Quality Services:
To maintain ISO 9001 Quality Standard Certification
- (3) Health and Safety:
To maintain ISO 45001 Health & Safety Certification
- (4) People Performance:
 - (a) Staff Retention 70% per year
 - (b) Training & Development >1.5% of payroll costs each year
- (5) Environmental Performance
To maintain ISO 14001 Environment Certification.

9. INFORMATION to SHAREHOLDERS

SICON will provide information which meets the requirements of the Companies Act 1993, 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 operate on a "no surprises" basis in respect of shareholder related matters, taking into account matters that are commercially sensitive or given on a confidential basis.

Annual Statement of Intent

In accordance with Schedule 8 of the Local Government Act 2002, a draft annual Statement of Intent will be prepared and submitted to the shareholder for review by 1 March every year. After due consideration and discussion with the shareholder and completion of the annual business planning and budgeting, the final SOI is approved by the Board of Directors and delivered to the shareholder by 30 June every year.

Annual Report

An annual report shall be prepared in accordance with sections 67, 68 and 69 of the Local Government Act 2002, the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the reporting requirements prescribed from time to time by the Institute of Chartered Accountants of New Zealand. The annual report will be presented to shareholders within 3 months of the end of each financial year prior to being made available to the public.

Quarterly Reports

Half yearly reports shall be prepared in accordance with section 66 of the Local Government Act 2002, the requirements of the Companies Act 1993 and the reporting requirements prescribed from time to time by the Institute of Chartered Accountants of New Zealand. The quarterly reports will be presented to shareholders within two months of the end of each quarter of each financial year and will incorporate the results from any subsidiary companies.

Information contained within the quarterly reports will include:

- Year to date turnover for each division
- Year to date net profit for each division
- Detailed explanation for variances against budget
- Cashflow for the reporting period
- Projected year end result for each division
- Key contracts secured for delivery during the next quarter
- Identified business risks.

Quarterly reports will be presented to an In-Committee meeting of Selwyn District Council. It is expected that presentations will be made by a Company Director and the SICON Ltd Chief Executive.

Other Information

Produce other information as may be agreed between Selwyn District Council and the company or such other information as may significantly affect the specific objectives.

Statement of Accounting Policies

SICON Ltd has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Selwyn District Council Group.

NZ IFRS standards and interpretations are subject to change and therefore the accounting policies are also subject to change during the period of this SOI. Subject to those possible changes, the company's accounting policies will be consistent with those published in the most recent annual report, with the exception that the accounting policies are now those of the group which includes SICON Ltd and any subsidiary companies.

Responses to special Shareholders requests

SICON will respond to any special requests made by the shareholder in a timely and accurate manner.

10. DIRECTORS' ESTIMATE FOR THE COMMERCIAL VALUE

On an ongoing basis, the commercial value of the shareholder's investment is estimated to be the Equity as shown in the latest audited accounts of the company.

Each 3 years, the Directors or shareholder, at their cost, may request a confirmation of the shareholder's investment by an independent assessment. The manner and timing of the assessment will be determined by the purpose for which it is undertaken, or by the terms of the request of the shareholder.

11. ACQUISITIONS AND DIVESTMENTS

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with our objectives. When the board considers a transaction to be significant to the company business operations, we will consult with our shareholders.

Major transactions as defined by the Companies Act 1993, will be subject to shareholders approval by special resolution. However, when we are considering a significant acquisition or disposal of assets or securities, we will consult with our shareholders with as much lead-time as is commercially practicable in the prevailing circumstances. Where we decide to incorporate or subscribe for shares in subsidiaries to undertake our commercial activities, we will ensure effective management.

Board control of any subsidiary is exercised by our directors and management.

12. ACTIVITIES FOR WHICH THE COMPANY SEEKS COMPENSATION FROM ANY LOCAL AUTHORITY

The Company requires payment from the Selwyn District Council, in accordance with contracts from SDC in respect of contracts which the Company has been awarded. Likewise, if any other contracts are entered into between the Company and any territorial or regional authority, payment of the contract price will be required from such a contracting authority.

The Company will also seek compensation from any appropriate local authority for those contracts undertaken at the explicit request of central, regional or district governments to provide services to meet a particular social or economic goal.