

SICON LIMITED

STATEMENT OF INTENT FOR THE THREE YEARS COMMENCING 1 JULY 2019

1. INTRODUCTION

SICON Limited (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 2019 to 30 June 2022.

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 are in place:-

Our Business Philosophy

Infrastructure Built on Trust.

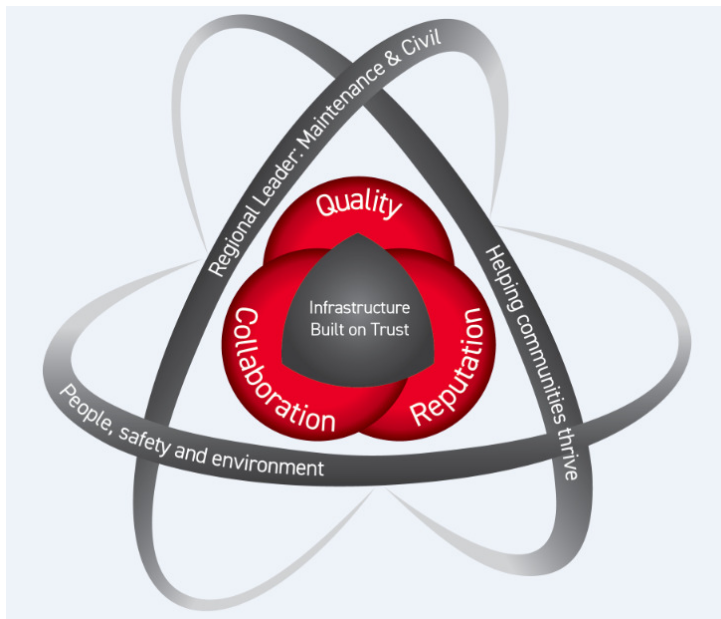
Our Mission

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, 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.

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 work load
- 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, 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

SICON's People and Safety strategy 2017 – 2020 is in its third year of implementation and encompasses compliance with current legislation, Human Resources and Health & Safety best practice. Outcomes are practically based, ensuring easy and quick implementation, through SICON's collaborative culture.

SICON's People and Safety strategic goals are:

1. Improved People & Safety Leadership
2. Effective Communication & Measurement
3. Clear Expectations & Accountability
4. Simple & Effective People & Safety Systems

These are each underpinned by objectives which are monitored. As part of the company's first goal, safety leadership behaviours are identified and expectations are clear from Directors to front line staff. Alignment of the company's strategy to the practical front line delivery results in clear expectations, and the ability to monitor and review process.

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, accidents investigations, and most importantly engagement of staff through a Health and Safety Coalition Group (HSCG). The HSCG has been extremely successful in gaining feedback and ideas on H&S matters, and delivering practical solutions.

6. DIVIDEND DISTRIBUTION POLICY

The dividend distribution policy is to pay a minimum annual dividend equal to the higher of \$800,000 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, the Directors will discuss options with Selwyn District Council.

7. FINANCIAL PROJECTIONS

SICON Limited Annual Budget

Statement of Financial Performance For the Years Ending

\$000s	2020	2021	2022
Revenue	\$46,693	\$47,649	\$48,630
Expenditure excluding Interest	\$41,207	\$41,954	\$42,765
Depreciation	\$2,486	\$2,312	\$2,118
Amortisation	\$306	\$136	\$136
Interest - External	\$117	-	-
Total Expenditure	\$44,116	\$44,401	\$45,019
Surplus before tax	\$2,578	\$3,248	\$3,611
Tax	\$722	\$909	\$1,011
Surplus after tax	\$1,856	\$2,338	\$2,600

Statement of Financial Position

\$000s	2020	2021	2022
Current Assets	\$8,967	\$10,726	\$13,202
Non Current Assets	\$14,218	\$14,041	\$13,536
Total Assets	\$23,185	\$24,767	\$26,738
Current Liabilities	\$4,039	\$3,984	\$4,057
Non Current Liabilities	\$8	\$8	\$8
Total Liabilities	\$4,047	\$3,992	\$4,065
Net Assets	\$19,139	\$20,775	\$22,673
Equity	\$19,139	\$20,775	\$22,673

**SICON Limited
Annual Budget**

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

\$000s	2020	2021	2022
Net Cash Flows from Operating Activities	\$5,187	\$5,092	\$5,133
Net Cash Flows from Investing Activities	(\$1,350)	(\$2,270)	(\$1,750)
Net Cash Flows from Financing Activities	(\$917)	(\$778)	(\$750)
Net Increase in Cash Flows	\$2,920	\$2,044	\$2,633
Opening Cash Position	(\$2,462)	\$458	\$2,502
Closing Cash Position	\$458	\$2,502	\$5,135

Financial Performance Targets

\$000s	2020	2021	2022
Projected Revenue	\$46,693	\$47,649	\$48,630
Projected NPBT	\$2,578	\$3,248	\$3,611
Return on Equity	9.7%	11.3%	11.5%
Equity to Total Assets	82.5%	83.9%	84.8%
Total Equity	\$19,139	\$20,775	\$22,673
Liquidity	2.2:1	2.7:1	3.3:1
Ratio of Consolidated Equity to Total Assets	82.5%	83.9%	84.8%

Key Assumptions:

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

Blakely Brand Name & Customer Relationships Intangible assets amortised 2020-2022

Bank Interest @ 4.7% payable / 2% receivable

Revenue increases annually at 2%

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

8. STRATEGIC DIRECTION

Summary

SICON's strategic focus is to build on the foundation that has been created over the last few years with long term maintenance contracts. With the recent purchase of Blakely Construction this has diversified SICON's offering to its existing key maintenance clients as well as provided a new market for the company to pursue. SICON's vision is be a leading source of horizontal infrastructure services in the Canterbury regions. 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 caliber 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. With this as a strong foundation the future will be largely impacted and disrupted by technology advances in the industry. This will be a key influencer in retain existing and winning new contracts with public and private clients. With this in mind the company has embarked on a digital transformation of the business which is in its second year of implementation. .

Environmental Leadership

SICON will continue to strive to provide leadership with respect to the environment. The company develops site specific, rather than generic, environment plans for its operations and continually looks for opportunities to develop sustainable solutions that provide win/win outcomes for client and the environment. With its focus on more long term contracts the importance of innovative methodologies to enhance environment conditions is paramount.

Community Engagement

SICON mission in helping communities to thrive is at the heartbeat of the company. It regularly looks for opportunities to sustainably contribute to the communities that it operates in. Projects to enhance positive community outcomes and that are aligned with the company's mission, vision and values are preferred.

Key Performance Targets

- (1) Specific performance targets for the year commencing 1 July 2019. Financial Performance:
Return After Tax to Opening Equity 8.0% (minimum)
- (2) Quality Services:
To maintain ISO 9001:2015 Quality Standard Certification
- (3) Health and Safety:
To achieve ISO 45001 by the end of the 2020 financial year.
- (4) People Performance:
 - (a) Staff Retention 75% per year
 - (b) Training & Development 1.5% of payroll costs each year

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 Limited 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 shareholder.

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 shareholder 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.