



# Statement of Corporate Intent

*For three years to 30 June 2021*

## **Port Otago Limited**

This statement is presented by the Directors of Port Otago Limited in accordance with the requirements of Section 9 of the Port Companies Act 1988 and reflects the intentions of Port Otago Limited, its subsidiaries and associates (“the Group”) for the three years of the Company’s operations from July 2018 to June 2021.

### **1. Objectives of the Group**

- 1.1. To provide a quality service to cargo owners (Customers) and shipping lines (Partners) by way of a competitive choice in the supply chain.
- 1.2. To provide staff with, a safe working environment, satisfying rewards and opportunities and training for increased responsibilities and advancement within the Group.
- 1.3. To continue to review activities and services focusing on continuous improvements and optimum utilisation of staff and resources to meet the demands of changing trade patterns.
- 1.4. To implement pricing and cost management strategies so that long term profits are earned to give shareholders an appropriate return on the port infrastructure and to provide funds for future development of the Group.
- 1.5. To recognise in all aspects of the Group’s activities the environmental sensitivity of the Otago Harbour and the impact on local communities.
- 1.6. To conduct itself as a good corporate citizen consulting on matters of public interest.
- 1.7. To communicate the Company’s plans and achievements to staff, shareholders and the wider community and to be receptive to constructive comment.
- 1.8. To manage the investment property portfolio through active acquisition, development and, at times, divestment to produce a diversified portfolio by property type and location.
- 1.9. To manage investment property holdings to achieve the best long-term value gain while limiting exposure to undeveloped land.

### **2. Nature and scope of activities**

- 2.1. The activities of the Company, its subsidiaries and associates are to comprise generally:
  - 2.1.1. The efficient operation and promotion of the Port Otago Group.
  - 2.1.2. Provision of integrated container and cargo handling, warehousing, container depot and cruise services.
  - 2.1.3. Provide pilotage and towage services to facilitate the safe navigation of commercial shipping requiring pilotage within the Otago Harbour and Fiordland.

- 2.1.4. Grow the investment property portfolio, evaluate and take up new investment and development opportunities to improve asset values, and rates of return. Sales of leasehold land will be considered where a sale advances development and employment opportunities in Dunedin.
- 2.1.5. Evaluate opportunities considered likely to add value to, or enhance the competitiveness of, the Company.
- 2.1.6. Such other actions that may be required to meet the objectives of the Company recorded under item (1) above.

2.2. The following table details the company's trading subsidiaries and joint ventures:

Name	% owned	Principal Activity
<i>Subsidiaries</i>		
Chalmers Properties Limited	100%	Property investment
Te Rapa Gateway Limited	100%	Property investment
Fiordland Pilot Services Limited	100%	Shipping services
<i>Joint ventures and associates</i>		
Icon Logistics Limited	50%	Transport company
Hamilton Porter Joint Venture	66.6%	Property investment

2.3. The specific activities of the Group for the three years under review to June 2021 are expected to include the following:

2.3.1. Year ending June 2019

Port Otago – port operations

- a) Continue to build the safety culture across all aspects of the business.
- b) Adapt to changes in the global shipping industry to ensure appropriate services are available to our customers, investing in appropriate wharf infrastructure to enable sustainable cargo flows for future generations.
- c) Continue to invest in cruise infrastructure and resources to accommodate the expected 120 cruise ship visits.
- d) Complete the Fryatt Street log yard expansion to provide additional capacity for our log customers.
- e) Continuation of dredging in the harbour to facilitate the safe access of ships to berths and cater for larger ships.
- f) Complete the extension to the Multi-Purpose wharf.
- g) Complete the Boiler Point fishing wharf to enable the public to enjoy this new public amenity.
- h) Obtain a resource consent for the new beach project at Te Rauone and start construction of the groynes

- i) Evaluate replacing Port Otago Head Office at Port Chalmers.
- j) Commence the removal of material from the Flagstaff Hill.
- k) Complete the removal of asbestos and demolish the Fryatt Street Sheds and make safe for public use. Removal of all remaining asbestos from Port Otago facilities to move to an asbestos free workplace.
- l) Continue to work constructively with community consultative groups. Continue to review and refreshing, when required, community engagement.
- m) Continue to engage and support the Harbourside vision alongside Otago Regional Council, Dunedin City Council and University of Otago.

Chalmers Properties Limited, subsidiary and joint ventures

- a) Continue to implement the strategy for enhancement of the property portfolio.
- b) Continue to implement strategies for the sale or redevelopment of leasehold land in Dunedin.
- c) Continue with the development and realisation through land sales or leased assets of the Te Rapa Gateway property in Hamilton.

2.3.2. Year ending June 2020

Port Otago – port operations

- a) Continue to build the safety culture across all aspects of the business.
- b) Adapt to changes in the global shipping industry to ensure appropriate services are available to our customers, investing in appropriate wharf infrastructure to enable sustainable cargo flows for future generations.
- c) Continue to invest in cruise infrastructure and resources to handle the expected 120 cruise ship visits.
- d) Continuation of dredging in the harbour to facilitate the safe access of ships to berths and cater for larger ships.
- e) Complete construction of the goynes and sand renourishment at Te Rauone beach
- f) Complete the removal of material from the Flagstaff Hill and realign the road and rail line to Back Beach.
- g) Continue to work constructively with community consultative groups and continue to review and refresh, when required how Port Otago engages.
- h) Continue to engage and support the Harbourside vision alongside Otago Regional Council, Dunedin City Council and University of Otago.

Chalmers Properties Limited, subsidiary and joint ventures

- a) Continue to implement the strategy for enhancement of the property portfolio.
- b) Continue to implement strategies for the sale or redevelopment of leasehold land in Dunedin.

- c) Continue with the development and realisation through land sales or leased assets of the Te Rapa Gateway property in Hamilton.

### 2.3.3. Year ending June 2021

#### Port Otago – port operations

- a) Continue to build the safety culture across all aspects of the business.
- b) Adapt to changes in the global shipping industry to ensure appropriate services are available to our customers, investing in appropriate wharf infrastructure to enable sustainable cargo flows for future generations.
- c) Continue to improve cruise infrastructure to handle the expected 120 cruise ship visits.
- d) Continuation of dredging in the harbour to facilitate the safe access of ships to berths and cater for larger ships.
- e) Continue to work constructively with community consultative groups. Continue to review and refreshing, when required, community engagement.
- f) Continue to engage and support the Harbourside vision alongside Otago Regional Council, Dunedin City Council and University of Otago.

#### Chalmers Properties Limited, subsidiary and joint ventures

- a) Continue to implement the strategy for enhancement of the property portfolio.
- b) Continue to implement strategies for the sale or redevelopment of leasehold land in Dunedin.
- c) Continue with the development and realisation through land sales or leased assets of the Te Rapa Gateway property in Hamilton.

### 3. Ratio of Consolidated Equity to Total Assets

Financial Year ending 30 June	Actual or estimate	Consolidated Shareholders funds	Total assets	Ratio of Shareholders Funds to Total Assets
2017	Actual	\$433m	\$534m	81%
2018	Estimate	\$450m	\$563m	80%
2019	Estimate	\$457m	\$571m	80%
2020	Estimate	\$464m	\$580m	80%
2021	Estimate	\$471m	\$589m	80%

Equity comprises the issued and paid up capital together with retained earnings, the property revaluation reserve and any other reserves. Total assets represent all assets of the Group determined in accordance with the accounting policies as set out in the 2018 Annual Report.

The preferred range over time for the equity ratio is between 70% and 85%. The timing of capital expenditure, the income yields on Company investments and prevailing market conditions may

mean it is prudent for the Company to operate outside the preferred equity ratio range for periods of time.

#### 4. Accounting Policies

The Company's accounting policies are detailed in the 2018 Annual Report which is available from the Company's website located at <http://www.portotago.co.nz>

#### 5. Performance Targets

The performance of the Company in relation to its objectives may be judged by comparing actual results with budgeted targets of the following nature:

##### 5.1. Health & Safety

The Company has a Zero Harm strategy in place whereby it endeavours to be an industry leader in setting new standards of health and safety. With the involvement of every team member it is planned we'll thoroughly understand and manage our critical risks, to progressively improve health and safety performance across the business.

The key health and safety performance measures are:

- Maintain a Total Recordable Injury Frequency Rate (TRIFR) of < 10 for every 1 million man hours worked.
- Leadership Team undertake a minimum of 40 Visual Safety Leadership Audits / Observations each month
- Identification and management of critical risks

##### 5.2. Trade

Port Otago's 2019 financial year budgeted container throughput is 200,000 twenty foot equivalent units (TEU) and the budgeted conventional cargo throughput is 1.7 million tonnes.

The expected number of vessel arrivals in the year to 30 June 2019 is 540 vessels.

##### 5.3. Container terminal productivity

The Company aims to achieve average gross container crane productivity for the year ending 30 June 2019 of 27.5 lifts per crane hour.

##### 5.4. Sustainability

The Company aims to minimise the impact of port operations on the environment and our neighbours.

*The key Sustainable Performance targets are:*

- No Harbour pollution discharge occurrences
- No breaches of consent conditions
- Reduction in energy usage and adoption of new technology such as electric vehicles

##### 5.5. Financial measurement and performance

The performance measures to be used are:

Earnings before interest and taxation (EBIT) return on average total assets.

Return on equity	Profit, including unrealised fair value movements, divided by average shareholders' equity.
Equity ratio	The percentage that shareholders' funds represent of total assets with the target range between 70% and 85%.
Debt servicing ratio	The number of times interest is covered by the profit before tax, interest, unrealised fair value movements and unrealised impairment charges. Unrealised fair value movements include investment property revaluations, changes in the value of interest rate swaps and changes in the value of foreign exchange contracts.

The budgeted targets for Port Operations, Chalmers Properties Ltd (excluding property revaluations) and the Port Otago Group for the year ending 30 June 2019 are:

#### **Port Operations**

EBIT return on assets	6.2%
Return on equity	8.7%
Equity ratio at 30 June 2019	72%
Debt servicing ratio	9.3 times

#### **Chalmers Properties Ltd**

EBIT return on assets	5.9%
Return on equity	5.2%
Equity ratio at 30 June 2019	86%
Debt servicing ratio	10.1 times

(Property revaluations not included)

#### **Port Otago Group**

EBIT return on assets	6.1%
Return on equity	5.4%
Equity ratio at 30 June 2019	80%
Debt servicing ratio	9.7 times

## **6. Dividend Policy**

The return to the shareholders from shares held in Port Otago Limited will include dividends from trading profits earned.

The intention is to maintain ordinary dividends at least at \$7.5 million, increasing over time to within the range of 50% to 70% of the group's normalised operating surplus after tax.

Subject to meeting the required solvency tests, pay a special dividend of \$0.75 million for the year ended 30 June 2019.

## **7. Information for Shareholder**

Sufficient information will be made available to the Company's shareholder so that they may properly assess the value of their investment in the Company, in particular any change in value.

An Interim Report covering the six months to 31 December of each year shall be provided by 28 February. The report shall include a commentary on activities and unaudited financial statements for the period.

The Annual Report for each year ending 30 June shall be provided by 30 September of each year. The annual report shall include a commentary on activities, a comparison with performance targets set out in the Statement of Corporate Intent and audited financial statements for the year.

In conjunction with the Interim and Annual Reports the Company shall report to the shareholder on progress with implementing the Objectives and the Specific Activities set out in the Statement of Corporate Intent.

#### **8. Procedures for business acquisition**

The Group will only invest in shares of another company or business if the acquisition will produce shareholder added value over the longer term.

If any Company within the Group intends to subscribe for or otherwise acquire a financial interest in any company or business where the cost of that interest or acquisition exceeds 10% of Group shareholders funds it will have prior consultation with its shareholders.

#### **9. Activities subject to Compensation**

The Company will provide the following services for the Otago Regional Council for which the company expects to be remunerated or reimbursed by the Regional Council:

- a) Assistance in matters of good navigation and safety on Otago Harbour.
- b) Provision of such services as may be requested by the Regional Council.