



Statement of Corporate Intent

for the three years to 30 June 2019

Port Otago Limited

Statement of Corporate Intent

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 2016 to June 2019.

(a) Objectives of the Group

1. To provide a quality service to cargo owners and shipping lines by way of a competitive choice in the supply chain.
2. To continue to review activities and services focusing on continuous customer service improvements and optimum utilisation of staff and resources to meet the demands of changing trade patterns.
3. 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.
4. To recognise in all aspects of the Group's activities the environmental sensitivity of the Otago Harbour and the impact on local communities.
5. To provide staff with secure employment, a safe working environment, satisfying rewards and opportunities and training for increased responsibilities and advancement within the Group.
6. To conduct itself as a good corporate citizen consulting on matters of public interest.
7. To communicate the Company's plans and achievements to staff, shareholders and the wider community and to be receptive to constructive comment.
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. To manage investment property holdings to achieve the best long-term value gain while limiting exposure to undeveloped land.

(b) Nature and scope of activities

- (I) The activities of the Company, its subsidiaries and associates are to comprise generally:
 1. The efficient operation and promotion of the Port of Otago.
 2. Provision of integrated container and cargo handling, warehousing and container depot services.
 3. Provide pilotage and towage services to facilitate the safe navigation of commercial shipping requiring pilotage within the Otago Harbour and Fjordland.

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

(II) The following table details the company's trading subsidiaries and joint ventures:

Name	Percentage 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
South Freight Limited	100%	Transport investment
<i>Joint ventures and associates</i>		
HarbourCold Dunedin	50%	Cold store operation
Icon Logistics Limited	50%	Transport company
Hamilton Porter Joint Venture	66.6%	Property investment

(III) The specific activities of the Group for the three years under review to June 2019 are expected to include the following:

Year ending June 2017

Port Otago – port operations

- 1.1 Actively review activities to focus on customer service and optimum utilisation of staff and resources to meet the demands of changing trade patterns. Review pricing to ensure service charges provide an appropriate return on the port infrastructure.
- 1.2 Actively promote a positive and safe working environment for staff through a team focus, providing opportunities for career advancement and emphasising safety in all activities. Seek continuous improvement in health and safety performance.
- 1.3 Actively seek shipping and port related business development opportunities. Continue to evaluate opportunities to expand the Group's warehousing, transport and logistics services.
- 1.4 To cater for larger container ships, continue deepening the existing shipping channel to Port Chalmers to 14 metres by utilising our own dredge, the New Era.
- 1.5 Continue with the Next Generation port development projects, including expansion of A shed, wharf sheet piling and planning for the Multi-Purpose wharf extension.

- 1.6 Obtain the resource consents required to renew the existing consents for the maintenance dredging disposal sites.
- 1.7 Develop a long term plan for the Dunedin slipway including the appropriate location and work required to meet best practice operating procedures.
- 1.8 Commence the upgrade of the yard and entrance at the South Freight container depot at Strathallan Street.
- 1.9 Continue with the acoustic treatment programme within the Blue (60 dBA to 65 dBA) and Yellow (55 dBA to 60 dBA) noise zones at Port Chalmers. Actively progress, as approached by property owners, acoustic treatment applications for properties situated within the noise zones.

Continue to measure and monitor noise and implement, where possible, new initiatives to minimise the effect of port noise on the community.
- 1.10 Obtain the resource consents required to excavate and secure Flagstaff Hill prior to relaying the rail line.
- 1.11 Work constructively with the community through the Port Environment/Liaison Committee by continuing to update and implement the Port Environment Plans. Maintain the landscaped areas at Flagstaff Hill, Back Beach and Boiler Point.
- 1.12 Continue the ongoing programme of identifying business and environmental risks faced by the Group and review the effectiveness of policies and procedures in place to minimise and manage the risk.
- 1.13 Continuation of dredging in the harbour to facilitate safe access of ships to berths.

Chalmers Properties Limited, subsidiary and joint ventures

- 1.14 Continue to evaluate and take up opportunities for property investment, divestment and development thereby improving the asset quality, values, rates of return and future portfolio growth potential.
- 1.15 In line with the Port Otago Group investment strategy consider sales opportunities of Dunedin leasehold land, where a sale advances economic development within Dunedin city.
- 1.16 Complete the development of the Steel and Tube office/warehouse at Fryatt Street, Dunedin.
- 1.17 Complete the second stage of the industrial land development of the Te Rapa Gateway property in Hamilton.
- 1.18 Commence construction of two office/warehouse development projects within the Te Rapa Gateway industrial development.

Year ending June 2018

Port Otago – port operations

- 2.1 Review the port and port related activities to focus on customer service and optimum utilisation of resources to address changing trade patterns.
- 2.2 Continue to provide staff with a positive, safe and rewarding working environment.

- 2.3 Continue to seek new shipping opportunities and continue to evaluate opportunities to expand the Group's warehousing, transport and logistics services.
- 2.4 Complete deepening the shipping channel to Port Chalmers to 14 metres by 30 September 2017.
- 2.5 Continue with the Next Generation port development projects.
- 2.6 Commence the Boiler Point fishing wharf at Port Chalmers.
- 2.7 Take delivery of two new diesel electric straddle carriers.
- 2.8 Commence the development of the container hub site at Odlins Place, Mosgiel.
- 2.9 Commence the excavation works prior to realignment of the rail line to Back Beach below Flagstaff Hill.
- 2.10 Continue ongoing programme of identifying business and environmental risks faced by the Group and review the effectiveness of policies and procedures in place to minimise and manage the risk.
- 2.11 In consultation with the community review Environment Plans, and continue to monitor and implement the plans. Continue to review the Noise Management Plan and where possible achieve further improvements to noise abatement procedures. Continue to monitor total port noise.

Chalmers Properties Limited, subsidiary and joint ventures

- 2.12 Continue to implement the strategy for enhancement of the property portfolio.
- 2.13 Continue to implement strategies for the sale or redevelopment of leasehold land in Dunedin.
- 2.14 Continue with the development and realisation of the Te Rapa Gateway property development and the successful conclusion of the Joint Venture project.

Year ending June 2019

Port Otago – port operations

- 3.1 Continue to review the port, warehousing and related activities to focus on customer service and optimum utilisation of resources to address changing trade patterns.
- 3.2 Continue to provide staff with a positive, safe and rewarding working environment.
- 3.3 Continue to manage and monitor total port noise.
- 3.4 Complete the development of the container hub site at Odlins Place, Mosgiel.
- 3.5 Continue the redevelopment of the South Freight container depot at Strathallan Street, Dunedin.

- 3.6 Continue programme of business and environmental risk, evaluation and management.
- 3.7 In consultation with the community review Environment Plans, and continue to implement the plans.
- 3.8 Continuation of dredging in the harbour to facilitate the safe access of ships to berths.

Chalmers Properties Limited, subsidiary and joint ventures

- 3.9 Continue to implement an active property investment and management strategy.
- 3.10 Continue to implement strategies for the sale or redevelopment of leasehold land in Dunedin.
- 3.11 Continue with the development and realisation of the Te Rapa Gateway property development and the successful conclusion of the Joint Venture project.

(c) **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
2015	Actual	\$375m	\$462m	81%
2016	Estimate	\$404m	\$493m	82%
2017	Estimate	\$411m	\$501m	82%
2018	Estimate	\$418m	\$510m	82%
2019	Estimate	\$425m	\$518m	82%

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 2015 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.

(d) **Accounting Policies**

The Company's accounting policies are detailed in the 2016 Annual Report which is available from the Company's website located at <http://www.portotago.co.nz>

(e) **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:

Trade

Port Otago's 2017 financial year budgeted container throughput is 174,700 twenty foot equivalent units (TEU) and the budgeted conventional cargo throughput is 1.4 million tonnes.

The expected number of vessel arrivals in the year to 30 June 2017 is 496 vessels.

Container terminal productivity

The Company aims to achieve gross container crane productivity for the year ending 30 June 2017 of 28.6 lifts per crane hour, a 5% increase. This compares with a crane rate of 27.2 for the year to 30 June 2016.

Environmental

Incidents leading to pollution of Harbour
Full compliance with all resource consent conditions

Performance target

- Nil
- Nil breaches of resource consent conditions

Health & Safety

The Company has a Zero Harm strategy in place and it endeavours to be an industry leader in setting new standards of safety. With the involvement of every team member it is planned, through a process of continuous improvement, to progressively improve health and safety performance.

The performance measures to be used are:

- maintain Workplace Safety Management Practice (WSMP) tertiary status;
- maintain compliance with the Australian and New Zealand health and safety standard AS/NZS 4804:2001

The Total Injury Frequency Rate (TIFR) target for the year to June 2017 is 9 for every 1 million work hours. This compares to a TIFR of 12.2 for every 1 million work hours for the year to 30 June 2016.

Financial measurement and performance

The performance measures to be used are:

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

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| 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 65% and 75%. |
| 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 2017 are:

	Port Operations
EBIT return on assets	7%
Return on equity	8.4%
Equity ratio at 30 June 2017	82%
Debt servicing ratio	21 times

	Chalmers Properties Ltd
EBIT return on assets	4.8%
Return on equity	3.5%
Equity ratio at 30 June 2017	80%
Debt servicing ratio (Property revaluations not included)	5 times

	Port Otago Group
EBIT return on assets	5.6%
Return on equity	4.5%
Equity ratio at 30 June 2017	82%
Debt servicing ratio	8 times

(f) **Dividend Policy**

1. The return to the shareholders from shares held in Port Otago Limited will include dividends from trading profits earned.
2. The intention is to maintain ordinary dividends at least at \$7 million, increasing over time to within the range of 50% to 70% of the group's operating surplus after tax.
3. The company may pay special dividends if, after taking into account forecast levels of capital expenditure, the company will remain within the preferred range for the consolidated equity ratio.

(g) **Information for Shareholders**

Sufficient information will be made available to the Company's shareholders 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.

(h) **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.

(i) **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.