



PORT OF NAPIER LIMITED

**STATEMENT OF CORPORATE
INTENT**

For the period from
1 October 2017 - 30 September 2020

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STATEMENT OF CORPORATE INTENT YEARS ENDING 30 SEPTEMBER 2018 – 2020

Introduction

This statement sets out the Port of Napier Limited's ("Napier Port", "Port" or "Company") vision, along with our core values and indicators of success. In addition, it also highlights the objectives, activities and financial initiatives of the Port for the next three years.

Our Vision

Napier Port's vision is to be Central New Zealand's leading provider of port and logistics services.

Napier Port will deliver on its vision by:

- Enhancing a safety-based continuous improvement culture
- Creating customer value through innovative logistics solutions
- Leading, developing and inspiring talented and capable people
- Making strategically informed and financially sustainable decisions
- Living and breathing our values

Success Is

- Taking care of ourselves and our colleagues in a dynamic work environment and going home safely every day.
- Being the port of choice in the highly competitive Central New Zealand area and continuing to profitably grow our cargoes and company value. This will be achieved through simplicity, teamwork, collaboration, innovation and technology, logistics solutions, cargo care, and our values.
- Realising our goal of "Better People Better Answers" with all staff valued for their contribution.
- Being recognised as a key economic enabler in the region and a positive contributor to our community.

Measured by:

Napier Port, achieving its forecasts:

	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
Net Profit after Tax (\$m)	14.3	17.4	19.9
Containers (TEU)	274,000	280,000	286,000
Non-Containerised Cargo (tonnes)	2,518,000	3,025,000	3,242,000
Total Cargo (tonnes)	4,630,000	5,143,000	5,420,000

Napier Port will have in place the necessary capability platform and infrastructure to handle its customers' cargo economically and efficiently, and with minimal delays, whilst 90% of current vessels will move without restrictions on all tides assuming minimal swell conditions.

The Company seeks to achieve an 8% post-tax return on Shareholder's Funds over the medium to long-term and recognises that such returns may reduce in the short to medium-term during and following periods of significant capital investment.

Objectives

1. The Company will operate as a successful business, focusing on the objectives below, as well as the performance targets and measures and by adopting a dividend policy as set out later in this document.
2. For its customers, contractors and other service providers, the Company will provide a safe, effective and efficient port operation.
3. For its employees, the Company will promote a safe working environment where positive contribution is recognised and rewarded.
4. For its Shareholder, the Company will manage its financial assets and liabilities prudently and in a manner which will yield a satisfactory return on the Shareholder's investment, whilst ensuring the provision of long term marine and port infrastructural assets for the region.
5. The Company will provide leadership and support to the business community.
6. The Company will be environmentally responsible and measure its on-going performance.

Nature & Scope of Activities

Napier Port will:

1. Provide a commercial harbour, comprising deep water berths, land and buildings which are essential to the proper and safe operation of an international port.
2. Manage any development of the infrastructure and associated funding in accordance with best practice including the Company's overall debt programme.
3. Ensure the provision of such pilotage, towage and mooring services to vessels utilising the Port of Napier, as may be required from time to time.
4. Ensure an efficient and competitive cargo handling service is provided, which meets the special requirements of all cargoes and commodities, by type and configuration (e.g. break-bulk, unitised and containerised).
5. Aggressively promote and market Napier Port to shipping lines, importers and exporters, the wider Hawke's Bay region and central New Zealand.
6. Provide and or contract such technical, administrative or specialised services as may be required to achieve these objectives.
7. Maintain an Environmental & Sustainability Management Plan to provide a systematic review of responsible environmental management practices and procedures and to develop on-going sustainability initiatives including:

- Where applicable, an assessment of export product volumes and types transitioning through the Port, which are traded under environmental accreditation systems.
- Identifying accreditation systems relevant to Napier Port's operations and their commercial applicability.
- Providing a framework for on-going monitoring and practical improvements including managing the impacts of carbon emissions noting that for carbon accounting purposes the Port's carbon "footprint" will be a component of the Regional Council's total carbon "footprint".
- In collaboration with MPI, NZ Customs and all port users, ensure a proactive and fully compliant bio-security framework for Napier Port. This framework will encourage a culture of bio-security vigilance and responsible environmental and sustainable management practices by customers, contractors and other service providers.

8. Comply with the Port & Harbour Marine Safety Code

New business ventures into which Napier Port may expand include:

- Supply chain and logistics management and all forms of cargo movement/handling from production/manufacturing to point of ships' departure.
- Any other activity which assists the efficiency and effectiveness of the Port, such activity may be outside the natural confines of the Port area.

The Company will keep abreast of opportunities for investment and new business activities that will provide additional prospects for growth of the Company, as well as meeting the specific financial objectives adopted from time to time.

Accounting Policies

The accounting policies will be consistent with:

- The legal requirements of the Companies Act 1993
- Generally accepted accounting principles (NZ GAAP)
- Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards

Performance Monitoring

- (i) Napier Port has a zero harm workplace target and will measure its health and safety performance by lost time injuries, staff health and safety engagement, safety observations and follow up performance.
- (ii) Napier Port will where appropriate monitor on a regular basis our sustainability performance through:
 - Water usage
 - Electricity usage
 - Gas and Fuel usage

- Noise profile
 - Carbon Footprint
 - Recycling and waste management
 - Air discharges
 - Water quality
 - Toxicity
 - Coastal processes
- (iii) Napier Port will provide a breakdown of its trade and cargo volumes.
- (iv) Napier Port will monitor its performance against its Strategic Plan including its operational performance against customer expectations.
- (iv) The Port will provide an assessment of its financial performance against a number of measures based on the book value of the Company's assets, which will include:

	Target	2017/18 Budget	2018/19 Forecast	2019/20 Forecast
Debt to Debt Plus Equity Ratio *	20-40%	29%	26%	24%
Interest Coverage Ratio	>3x	8.0	9.4	11.1
Return on Average Operating Assets	13%	11.1%	12.4%	13.3%
Return on Average Shareholder's Funds	8%	6.9%	8.1%	8.8%

* It is acknowledged that with any large capital development programme, the Company may exceed the target level for a short period of time.

Capital Management Policy

Where the Company has identified through its strategic and business planning processes that it wishes to utilise new capital for its growth initiatives or development opportunities, it will canvass these fully with the Shareholder during the Statement of Corporate Intent process. Where these growth initiatives or developments, or any combination or sequence of them, would constitute a major transaction, the Company undertakes to discuss with the shareholder the business case(s) supporting investment in these initiatives or opportunities, prior to committing to the initiative or development.

Dividend Policy

Napier Port notes the Shareholder's desire to receive a planned dividend flow and will use its best endeavours to accommodate that desire, within the constraints imposed by the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.

Napier Port is currently pursuing a resource consent application for a new container terminal wharf and associated dredging to handle projected containerised cargo volume and larger vessels in the future. Provision has been made in the forecasts for a significant capital reinvestment program, although this is dependent on a number of potential trigger points, a sustainable business case, and financial affordability. To finance any such investment the Port will need to consider all its funding options including its ability to pay dividends leading up to and around the investment period, additional revenue raising, and its future capital structure.

The Company is consulting with its shareholder stakeholders regarding alternative funding options for the wharf and dredging capital investment. Until a detailed financing plan is determined in conjunction with the Company's shareholder stakeholders, the Company's

directors are anticipating a lower sustainable level of dividend going forward. The sustainable level of dividend and the Company's ability to pay special dividends will continue to remain under review by the Napier Port Board.

Subject to the above qualifications, the planned dividend schedule for the next three years is:

	2017/18 \$000	2018/19 \$000	2019/20 \$000
Dividend	7,500	7,803	8,340
Special Dividend	1,500	TBC	TBC
Total	9,000	7,803	8,340

Shareholder Information

The Company will provide the Shareholder with information (within 2 months of the relevant reporting period) that is normally provided to a controlling private Shareholder, and required under the Port Companies Act 1988 as follows:

- Quarterly report on activities and results.
- Half yearly report (including such information as the Directors consider necessary to enable an informed assessment for the performance of the Company in the reporting period against the Statement of Corporate Intent).
- Annual Report including audited financial statements for the year.

The Directors will provide information to the Shareholder on the understanding that dissemination of such information to other persons or parties will not take place unless agreement with the Directors has been obtained. This information could include:

- (1) For the coming three years: forecast income statements, forecast statement of cash flows, identifying capex (split into strategic, growth, and maintenance/replacement categories) and free cash flows. The Company will also supply forecast debt levels and ratios.
- (2) Report on health and safety as part of quarterly reporting.
- (3) Details of any significant new development to the Port or its infrastructure.
- (4) Any new developments not already covered in the budget and plan for the year.
- (5) Significant departure from anticipated performance of the Company.
- (6) Significant industrial or other activities that may affect the operations and/or reputation of the Company.
- (7) Possible environmental, economic and sustainability issues and trends, beyond the Port gate, which may affect the future operations of the Port.

In addition, the Company will provide to the Shareholder its draft Statement of Corporate Intent by 1 June each year so the contents can be reflected in the Shareholder's Statement of Intent.

Compensation for Undertaking Non-Commercial Activities

The Company may enter into contracts with the Hawke's Bay Regional Council or at the request of the Shareholder to undertake certain activities. Compensation shall be by way of a fee paid to the Company, in full recovery of costs incurred in undertaking these activities.

Payment will be sufficient to meet the costs incurred by the Company in undertaking the activity or assuming the obligation for the service provided.

Directors' Professional Development

The Company will provide financial support for non-executive Directors to participate in on-going professional development. The maximum expenditure in any year will not exceed 15% of the total Directors' fees paid to the non-executive Directors.

Measuring and Evaluating Board and Director Performance

The Company has implemented a system of measuring and evaluating Board and Directors' performance. The next formal review will be undertaken by August 2018.

The outcome of the process will be reported to the Shareholder by 30 September that year through contact between the Chairman of Directors (or where appropriate the Deputy Chairman and if one is not appointed the longest serving Director) and the Chairman of the Hawke's Bay Regional Investment Company.



ALASDAIR MACLEOD
CHAIRMAN OF DIRECTORS



GARTH COWIE
CHIEF EXECUTIVE