

# Statement of Intent

For the year ending 30 June 2016



# Contents

Introduction .....	3
Objectives .....	3
<i>Vision</i> .....	3
<i>Key objectives</i> .....	3
Nature and Scope of Activities .....	3
<i>Key strategies and initiatives</i> .....	4
Performance measures and targets.....	7
<i>Shareholder returns</i> .....	7
<i>Financial performance</i> .....	8
<i>Development plan</i> .....	8
<i>Dividend policy</i> .....	8
<i>Estimate of commercial value of shareholder's investment</i> .....	8
Communication .....	9
<i>Formal communication with CCHL</i> .....	9
Corporate Governance and Policies .....	9
<i>Role of the Board</i> .....	9
<i>Board Composition</i> .....	10
<i>Committees of the Board</i> .....	10
<i>Accounting Policies</i> .....	11
<i>Acquisition and Divestment Policy</i> .....	11
Engagement with Stakeholders .....	11
<i>Intra-group cooperation and procurement</i> .....	11
<i>Role in the regional economy</i> .....	11
<i>Environmental</i> .....	11
<i>Community engagement</i> .....	12
<i>Recovery plan</i> .....	12
<i>Contact details</i> .....	13

## INTRODUCTION

The Statement of Intent (SOI) specifies for Lyttelton Port Company Ltd (LPC) and its subsidiaries the objectives, nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of LPC may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public expression of the accountability relationship between the Company and its Shareholders.

This SOI covers the three year period from 1 July 2015 to 30 June 2018.

LPC is a Port Company governed by the Port Companies Act 1988, and this SOI is prepared in accordance with LPC's obligations under that Act.

## OBJECTIVES

### Vision

"To be the South Island Port of choice".

### Key objectives

- **To measurably improve safety performance**
  - to engage and empower our staff
  - to improve the safety of our facilities and working environment
  - to develop our communications structure for effective issue escalation and resolution
- **To be profitable over the long term**
  - to optimise long term shareholder returns
  - to protect and grow LPC's share of Port services in target markets
  - to pursue expansion opportunities in the transport supply chain that add value in both customer service levels and shareholder returns
  - to practice a continuous improvement cycle that will ensure the cost and performance competitiveness of LPC's services
- **To provide outstanding customer service**
  - to deliver efficient services and infrastructure which exceed customer expectations
  - to build relationships with customers based on trust and mutual benefit
- **To be an employer of choice**
  - to provide a challenging and rewarding work environment which develops trust and encourages both teamwork and development to full potential
- **To be environmentally and socially responsible**
  - to minimise as far as practicable adverse effects of LPC's operations and development on the environment
  - to be a responsible corporate citizen
  - to grow our social licence to operate.

## NATURE AND SCOPE OF ACTIVITIES

LPC is a Port owner and operator. Its activities include providing land, facilities, plant and labour for the receiving, delivery, stockpiling, stacking and shipment of a wide range of products; the ownership of land and facilities necessary to maintain LPC's commercial assets; and the provision of facilities associated with the repair and servicing of vessels.

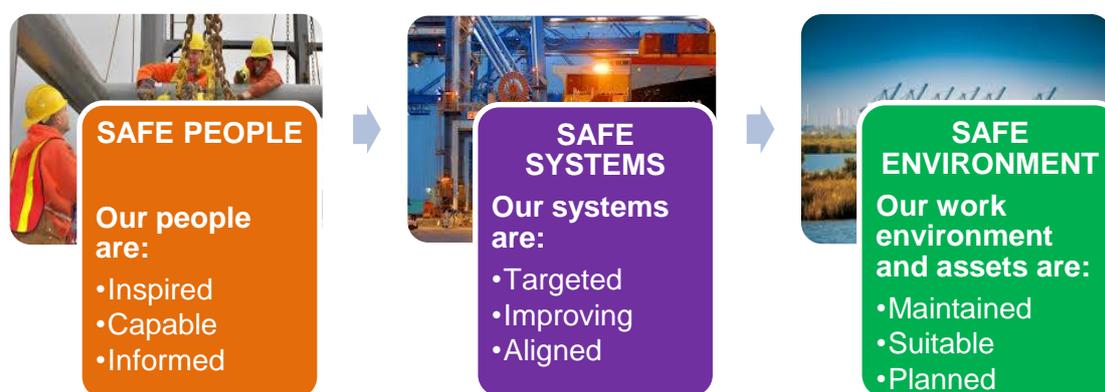
## Key strategies and initiatives

### LPC'S AREAS OF FOCUS ARE:

### HEALTH & SAFETY VISION: HOME SAFE

### OUR FOCUS ON SAFETY

Health and safety is a top priority. LPC is focused on enhancing its health & safety systems and creating an effective health and safety culture. To support the achievement of our vision we need to lead in every area of our business. Health and safety must be the golden thread that runs through our work. We want all our people – including our suppliers, customers, port users and contractors to go home safe. To lead in safety, we have identified the three overarching goals that are appropriate to our current level of performance: Safe People, Safe Systems and Safe Environment.



#### Safe People

- **Inspired** – Our leaders will inspire our people by visibly demonstrating their commitment to health and safety. This will be reinforced with clear, well communicated roles and responsibilities. We will be holding ourselves and each other accountable for fulfilling those roles and responsibilities, and we will ensure that our people are fully involved in health and safety decision making, and have clear authorities in which they have the ability to take action.
- **Capable** – To be truly successful and to achieve our desired organisational outcomes, we need competent, capable people. We will empower our people with the knowledge, skill and experience to recognise and manage the risks in their activities, and to support each other in their activities.
- **Informed** – To stay safe, our people need information. They need to have access to the right information at the right time in the right format. For this to occur, we need clear and effective methods of communication. We will ensure that our people are provided with the information they need, when they need it. This applies to the people that we pay directly (our employees) as well as the people that are influenced or directed by us.

#### Safe Systems

- **Targeted** – Our system of work will support us to manage the specific risks associated with our activities. They will be appropriate to the risk; simple and pragmatic. They will be accessible and available to all of our people.
- **Improving** – Legal compliance is the minimum acceptable standard for our team. We have a strong public face and our reputation is essential to our ability to deliver our service. We will strive to attain best practice in our activities.
- **Aligned** – Through the standardisation of our systems for health and safety management across all aspects of our business, we can streamline our activities maximising our efficiencies, enhancing our performance and ensuring our processes

are fully embedded within our business processes. This will ensure the Board and Executive Management Team have visibility of our performance and assurance of our effectiveness in managing risk. Health and safety will be the golden thread that runs through everything that we do and will not seem as a separate and additional activity.

### **Safe Environment**

- **Maintained** – We will be assured that all of our assets, equipment and plant are well maintained to ensure operational readiness and safety.
- **Suitable** – We will be assured that our equipment, infrastructure and assets are appropriate to our activities, suitable for our environments and the ways that we use them. We will ensure that health and safety is considered in our procurement decisions.
- **Planned** – Our current operational activity is constrained by the reduced capacity of the Port following the earthquake. As we rebuild our Port to full capacity we will focus on ensuring that safety is considered not only with respect to the ongoing rebuild activity, but also the long-term operation and functioning of the Port.

### **GROWING TRADE**

- LPC continues to experience and forecast strong growth in its container business. This is forecast to continue although the Port continues to face strong competition from Port of Tauranga's investment in Timaru.
- The development of our inland port in Rolleston is part of our long term growth strategy.
- The development of a cruise terminal is included in the development plan but as it does not meet LPC's investment criteria, it cannot be a commercial investment without an external investment subsidy. This will continue to be discussed with relevant stakeholders.

### **REBUILDING THE PORT**

- As a lifeline utility, Lyttelton Port is recognised as significant infrastructure and is vital to the economic development and long-term prosperity of Canterbury, the South Island and New Zealand.
- As a result of the Canterbury earthquakes in 2010 and 2011, the Port sustained significant and widespread damage to infrastructure. These events have had a significant impact on the Ports ability to meet existing service demands in relation to throughput, productivity and customer service.
- LPC has a dedicated Project Management Office (PMO) responsible for the reinstatement and redevelopment of the Port's key infrastructure assets.
- The Port Lyttelton Plan has been developed and is a 30 year vision for the port. Its key objectives are to:
  - **Rebuild earthquake damaged infrastructure** – to ensure the port has the resilience to service key trade within Canterbury
  - **Develop infrastructure for growth** – to ensure that Canterbury has a port which can facilitate the growth of the region.

The key projects which will be undertaken are listed below.

#### **Rebuild earthquake damaged infrastructure**

- Container wharves on Cashin Quay - 2, 3 and 4
- Oil wharf
- Inner harbour jetties – 2, 3 and 7
- Pavements
- Electrical reticulation

## **Develop infrastructure for growth**

- Reclamation of up to 34 hectares of land
- Dredging to facilitate the visits of larger ships
- Development of a new terminal to increase capacity and efficiency – wharf, infrastructure, plant and equipment
- Rolleston inland port development

The projects are managed by our PMO in line with industry best practice standards.

This PMO encompasses the following key attributes:

### **Project Management Strategy and Capability**

- Governance teams and management have oversight and buy-in
- Systems, processes, people aligned and continually refined with a commercial delivery focus overlaid with an HS&E framework

### **Develop Resilient Infrastructure Assets that Support the Port Lyttelton Plan**

- Develop spatial plans and programmes that support the Port Lyttelton Plan
- Agree user requirements and design criteria for each new asset with Marketing and Operations
- Prioritisation of projects aligned with Operations, Marketing and funding

### **Minimal Disruption to Operations During Construction**

- Incorporate Marketing and Operational requirements during project initiation phase.
- Integrate PMO, Operations and Marketing Teams at every level of governance and project delivery structure

Utilise best industry methodologies for procurement and delivery A draft development plan and financial model has been presented to the LPC Board and continues to be refined. An updated draft will be presented to the LPC Board in August 2015 after which it will be presented to CCHL.

The Port Lyttelton Plan was published in 2014 and LPC began community consultation. The plan outlines the intentions of the Port and the impacts and benefits this will have for the community. The community consultation has been received and supplied to ECan for consideration.

## **IMPROVING OPERATIONAL EFFICIENCY**

- The Port has experienced significant increases in volumes over the last 10 years. These have been well managed, particularly given the space and infrastructure constraints the earthquakes have imposed.
- A key focus over the next two-three years is to optimise the Port from an efficiency and productivity perspective, as well as planning for the transition to the Te Awaparahi Bay reclamation.

## BEING PROFITABLE

- Profitability is expected to be impacted in the short term as we manage assets that, due to their age and earthquake condition, require increasing maintenance costs. As those assets are repaired or reinstated, the maintenance costs are forecast to decrease.
- Container volume growth, efficiency and productivity increases will increase profitability over the medium term, offset by higher depreciation charges.

## PERFORMANCE MEASURES AND TARGETS

Objectives	Key Performance Measures	Budget Targets		
		2016	2017	2018
<b>Health &amp; Safety</b>	Total recordable injury frequency rate <i>(per 200,000 hours)</i>	10.1	8.1	6.5
	Serious harm accidents	Nil	Nil	Nil
<b>Operational</b>	Crane rate <i>(No. of containers moved onto a ship in an hour)</i>	25	28	28
	Ship rate <i>(No. of containers moved on and off a container ship per labour hour)</i>	65	73	73
	Coal load out rate <i>(tonnes per day)</i>	25,000	25,000	25,000
<b>Financial</b>	Revenue	\$114M	\$120M	\$130M
	Interest cover ratio	N/A	N/A	12.3
	ROE	2.33%	2.09%	2.29%
	EBITDA	\$26.0M	\$28.7M	\$35.4M
	NPAT	\$12.5M	\$11.4M	\$12.7M
<b>Customer</b>	Truck turnaround time	90% at < 30 min	90% at < 30 min	90% at < 30 min
<b>Environmental</b>	Number of breaches - lagging	0.0	0.0	0.0
<b>Community</b>	Manawhenua Advisory Group meetings per year	5.0	5.0	5.0
	Community meetings attended per year	11.0	11.0	11.0

Notes:

- Dividends to CCHL will be in line with the dividend policy (refer below).
- LPC operates in a dynamic commercial environment and is still developing its long term plans. Whilst LPC makes every attempt to provide accurate forecasts, volatility at this stage of the process is unavoidable.

## Shareholder returns

LPC acknowledge that its returns are a key component of the CCHL's ability to support the recovery of Christchurch City.

LPC continues to focus on creating long term shareholder value by:

1. ensuring all business investment decisions are subject to rigorous commercial scrutiny, and
2. a continuing focus on improvement in underlying business performance.

Following the series of damaging earthquakes since September 2010, the Council has

undertaken a comprehensive review of its financial position, including an evaluation of its commercial assets in conjunction with Christchurch City Holdings Limited (CCHL). As a result of this review, the Council has proposed a financial strategy that, amongst other initiatives, envisages the sale of some of CCHL's equity investment. This proposed strategy is referred to generally, and in this Sol, as the "Capital Release Programme". The Council is consulting with the community on the adoption of this financial strategy as part of the process for developing its Long Term Plan, which is due to be finalised in June 2015.

The Company will work with CCHL to implement the final form of the Capital Release Programme, if adopted as part of the Council's Long Term Plan, and other objectives stated in this Sol must be read in light of this exigency.

In implementing the Capital Release Programme, however, the Directors will not be required to act in a manner which would be inconsistent with their duties at law.

### **Financial performance**

Revenue continues to increase with underlying growth in container volumes. Bulk cargo volumes are anticipated to stabilise following an increase in volumes, due to earthquake recovery and windblown increases to Log exports. EBITDA margin increases from 23% in 2016 to 27% in 2018, reflecting increased volumes and increasing business productivity due to increased crane rates.

The Company is working hard to increase productivity and underlying profitability as it responds to:

- the Kotahi/Maersk/Port of Tauranga alliance;
- increased maintenance on earthquake affected harbour structures (prior to permanent reinstatement).

### **Development plan**

LPC received \$440.1M in insurance payouts (including GST). Some of these funds have been applied against the repayment of our debt facility, taxation of insurance proceeds and commencement of repair and reinstatement of earthquake damaged assets. As at 31 December 2014, LPC's cash balance was \$252M. This will be used to fund the development plan but LPC expects to require funding from FY 2017 onwards.

### **Dividend policy**

LPC appreciates that its dividend stream is a key component in supporting the recovery of Christchurch city. The Company resumed dividend payments in March 2014 and paid a \$20M special dividend in October 2014.

As per the development plan above, a key consideration of the dividend policy is the timing and scale of funding required for the development plan. LPC is seeking to maximise shareholder value through investing available LPC's cash resources at the highest & best use whilst balancing the needs of its shareholder for cash dividends.

The Board has not formally adopted a dividend payout ratio and continues to assess distributions on the following basis, subject to meeting the solvency requirements of the Companies Act 1993:

- working capital;
- capital expenditure;
- the timing of reinstatement and development projects;
- the interests of shareholders; and
- free cash flow available for distribution.

### **Estimate of commercial value of shareholder's investment**

The three year forecast for shareholders equity, term debt, and return on equity is shown

below:

Year ended	30 June 2016	30 June 2017	30 June 2018
Equity	\$540.6M	\$549.5M	\$559.8M
Term bearing Debt	\$0.0M	\$0.0M	\$91.7M
Gearing (Term Debt / Term Debt + Equity)	0.00%	0.00%	14.08%
Return on Equity	2.33%	2.09%	2.29%

The long-term target for the ratio of debt to debt plus equity is 50%, to a maximum of 65%.

An independent assessment of the value of the Company was conducted in October 2014 by Northington Partners as part of the CCHL takeover process. This assessed the commercial value of the company at between \$3.35 and \$3.65 per share. This valuation is highly sensitive to the amount and timing of reinstatement and development capital expenditure, operating margins and container growth assumptions.

The Board is focused on creating long term shareholder value.

## COMMUNICATION

LPC aims to develop positive and proactive relationships with CCHL.

The Board endeavours to ensure CCHL is informed of all major developments affecting the Company's state of affairs, while at the same time recognising commercial sensitivity may preclude certain information from being made public. Information is communicated to CCHL through a "no surprise" policy on issues of importance as they may arise, as well as through formal communications discussed further below.

### Formal communication with CCHL

Formal communication includes:

- **Annual Report**

The Annual Report will include audited financial statements and such other details as are necessary to permit an informed assessment of LPC's performance and financial position during the reporting period provided to the shareholders.

- **Half year and quarterly reporting**

The half year and quarterly reporting will contain unaudited information and comply with NZ IAS 34.

- **Statement of Intent**

The SOI will be prepared based on the requirements within the Port Companies Act 1988. The Directors will include any other information they consider appropriate.

- **Briefings**

The Company will provide six monthly briefings to CCHL and its Board, and any others as required.

## CORPORATE GOVERNANCE AND POLICIES

### Role of the Board

The Board is elected by shareholders to create value and have overall responsibility for the management of LPC.

The Board carries out its responsibilities by approving LPC's strategic direction, appointing a Chief Executive, agreeing targets and objectives, and monitoring performance. The Chief Executive has been delegated responsibility for the day-to-day management of LPC. He has an Executive Team of seven to assist him.

Corporate decisions are made at Shareholder, Director or Management level, depending on statutory requirements, or Board policy relating to the value of transactions.

### **Board Composition**

LPC's constitution provides that the Board will consist of not less than six and not more than eight Directors. Shareholders nominate Directors and appoint them by way of ordinary resolution. This requires a simple majority of votes. At least two of the Directors must be ordinarily resident in New Zealand, and not more than two of them can be members or employees of a territorial local authority, Regional Council, United Council or Harbour Board that owns shares or other forms of equity in LPC.

One third of the ordinary Directors retire by rotation at each Annual Meeting. The basis for determining which Directors retire by rotation is length of service in office since last election or appointment. Retiring Directors are eligible for re-election.

### **Committees of the Board**

The Directors have established two standing Committees of the Board: Audit and Finance, and Remuneration. The Terms of Reference for each of the Committees and the need for Committees are reviewed regularly by Directors. The Board also has advisory Committees for Insurance, Infrastructure Development and Health and Safety matters, bringing total Board Committees to five.

The Committees make recommendations to the Board and only exercise the Board's decision-making powers when they have been specifically delegated authority to do so. A quorum for the purposes of Committee meetings is three Directors.

#### **Audit and Finance Committee**

The Committee reviews LPC's financial statements and announcements. It also liaises with the external auditors on behalf of the Board and reviews LPC's accounting policies, internal controls and related matters.

The Committee reviews and considers issues relating to risk involving the protection of people and property in the achievement of LPC's business goals and impact on profitability. This includes considering the placement of an annual insurance programme and making appropriate recommendations to the Board.

#### **Remuneration Committee**

The Committee reviews the terms and conditions of company-wide employment contracts, the performance and remuneration of the Chief Executive and Senior Executives, and the design and operation of the incentive programme, and makes appropriate recommendations to the Board.

#### **Insurance Committee**

The Committee assists Management to manage an outstanding matter with a former insurer and makes appropriate recommendations to the Board.

#### **Infrastructure Development Committee**

The Committee assists Management with significant infrastructure development issues and makes appropriate recommendations to the Board.

#### **Health and Safety Governance Committee**

A Director sits on the governing Committee for Health and Safety for LPC. This Committee oversees all of the Health and Safety Committees within LPC and provides a two way link with the Board of Directors.

## **Accounting Policies**

LPC has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and in accordance with the Companies Act 1993 and the Financial Reporting Act 1993 and any amendments thereto.

A full statement of LPC's accounting policies is included in LPC's Annual Report for 30 June 2014. LPC's accounting policies are unchanged and have been consistently applied.

## **Acquisition and Divestment Policy**

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 the long-term commercial objectives of LPC.

When the subscription, acquisition or divestment is a major transaction as defined in the Companies Act 1993, s129 (2), the transaction will be subject to shareholders' approval by special resolution.

Where LPC decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, LPC will ensure effective management. Board control of any subsidiary is exercised by LPC's Directors and staff.

## **ENGAGEMENT WITH STAKEHOLDERS**

### **Intra-group cooperation and procurement**

LPC recognises the importance CCHL places on intra-group cooperation. LPC continues to utilise "All of Government" Contracts.

LPC has commercial relationships within the following CCC group entities:

- Orion – electricity suppliers to the Port and Maintenance Contractors on High Voltage systems
- City Care – facilities management, and civil construction works.

### **Role in the regional economy**

The substantial investment resulting from the development plan will deliver Christchurch world class port facilities. There are significant and substantial opportunities for Cantabrians to participate in these projects.

LPC continues to play an essential role in the wider regional economy. LPC's role is to facilitate trade for the South Island.

LPC has responsibilities under the Civil Defence Act to build and maintain resilient infrastructure. This has been demonstrated by the performance of the assets after the seismic events. LPC will rebuild the Port to appropriate standards to ensure its assets are resilient to possible future events.

### **Environmental**

LPC is committed to minimising any adverse effects of its operations and developments on the environment. LPC will:

- advocate environmentally sustainable principles in port operations.
- avoid, remedy or mitigate adverse effects of its operations on the environment.
- where appropriate, pro-actively consult with the community on environmental issues.
- identify priorities for environmental improvement.
- implement and maintain systems and procedures for continually improving environmental performance.
- monitor, document and report on environmental performance to the Board, Senior

Management and staff.

LPC's Environmental Policy is a commitment to address all the priority environmental issues in the Port such as operational noise and discharge of contaminants to air, land and water. The Resource Management Act, 1991 provides the legal framework, together with statutory policy statements, plans and regulations prepared under the Act.

LPC accepts clean fill from building demolitions in Christchurch to reclaim land at Te Awaparahi Bay. This clean fill must meet strict environmental standards and diverts construction waste from landfill. To date LPC has diverted 1,500,000 cubic metres of demolition waste from landfills. The Cawthron Institute has confirmed that LPC's strict environmental systems have assured that there is no contamination of the marine environment due to reclamation.

LPC continue to inspect and monitor harbour beaches for material that may have breached the screening and containment systems.

### **Community engagement**

LPC completed a major community engagement process in 2014 around the release in June of the Port Lyttelton Plan, LPC's strategic 30 year development vision for the Port. An information hub 'Port Talk' was established on London Street, Lyttelton and over 700 people visited to discuss the Plan. Port Talk was staffed by a mix of LPC Management and staff over a six month period and provided an opportunity for community stakeholders to obtain information, provide feedback, ask questions and generally supported building good community relationships. LPC also received 210 written submissions and also had 60 individuals attend targeted stakeholder workshops to discuss the Port Lyttelton Plan. A summary of the feedback received was published in November 2014 and is also available on LPC's website.

LPC continues to develop strong relationships with local Rūnanga, Christchurch City Council, CERA and Environment Canterbury. All parties are working constructively on a number of significant projects:

- Lyttelton Port Recovery Plan
- Sumner Road reopening
- Greater Christchurch Transport Strategy.

LPC is a proud member of the Canterbury community and seeks to support its community. Initiatives include:

- the Lyttelton Harbour watch;
- sponsorship of the Lyttelton Harbour Festival of Lights;
- support of the Quail Island Ecological Restoration Trust and the Banks Peninsula Conservation Trust;
- support of Lyttelton Junior Rugby and
- sponsorship of the Champion Canterbury Awards and the Canterbury Tactix netball team.

LPC and local Runanga, Te Hapū o Ngāti Wheke, have established the Manawhenua Advisory Group which meets monthly to support us in implementing our shared vision for a healthy Lyttelton Harbour/Whakaraupo. The joint statement developed by the Manawhenua Advisory Group indicates we share a long term interest in the future of the harbour and place a high level of importance on working together to fulfil our common responsibility as custodians and kaitiaki of the harbour.

LPC continues to work to broaden and deepen its links with its community and local Iwi.

### **Recovery plan**

LPC is also focused on developing land to assist with rebuilding and to cater for long term growth. When LPC looks at future land and facility requirements, it is mindful that over the

last 20 years the container growth rate has been 10% compounding. While LPC is rebuilding, it is also aware of the need to continue to develop in order to handle future volumes for Canterbury and the South Island.

A Recovery Plan provides for the social, economic, cultural and environmental wellbeing of the Lyttelton and greater Christchurch communities. The Port is the major gateway to the South Island for goods freighted by sea and it makes a significant contribution to the regional and national economy. A Recovery Plan will ensure safe, efficient and effective operations, while taking account of the impact on the coastal marine area and the community, any implications on transport and the needs of users of the Port and its surrounding areas.

### **Contact details**

Lyttelton Port Company Ltd's registered office is at:

41 Chapmans Road  
Woolston 8022  
Christchurch

Contact details for both the Chairperson and Chief Executive are:

Address	Private Bag 501, Lyttelton, 8841
Telephone	(03) 328 8198
Website	<a href="http://www.lpc.co.nz">www.lpc.co.nz</a>