

Statement of Corporate Intent 2017-18

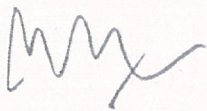
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2017-18 Statement of Corporate Intent

Port Authority of New South Wales

Shareholder Agreement

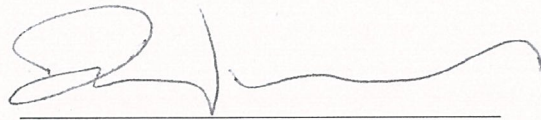
This Statement of Corporate Intent is agreed between Port Authority of New South Wales and its Ministerial voting shareholders:



Nicholas Whitlam
Chairman

for and on behalf of
Port Authority of New South Wales

Date: 20 September 2017



The Hon. Dominic Perrottet, MP
Treasurer and Minister for Industrial
Relations

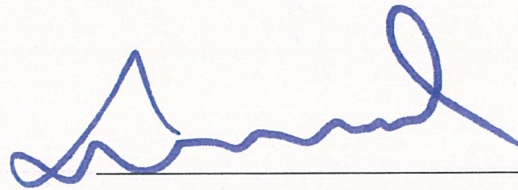
Date:



Grant Gilfillan
Chief Executive Officer and
Director

for and on behalf of
Port Authority of New South Wales

Date: 20 September 2017



The Hon. Victor Michael Dominello,
MP
Minister for Finance, Services and
Property

Date:

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1 Objectives

The Port Authority of New South Wales (the Port Authority) is a statutory State Owned Corporation established under the *State Owned Corporations Act 1989* and *Ports and Maritime Administration Act 1995*, and operates in accordance with those Acts. The principal objectives of the Port Authority reflect the provisions of both Acts.

The Port Authority's principal objectives which derive from the *State Owned Corporations Act 1989* are:

1. to be a successful business and, to this end:
 - a) to operate at least as efficiently as any comparable businesses;
 - b) to maximise the net worth of the State's investment in the State owned corporation;
2. to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates; and
3. where its activities affect the environment, to conduct its operations in accordance with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*; and
4. to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

(The *State Owned Corporations Act 1989* states that each of the above principal objectives is of equal importance.)

In addition to the above, the Port Authority's principal objectives, which derive from the *Ports and Maritime Administration Act 1995*, are:

1. to promote and facilitate trade through its port facilities;
2. to ensure that its port safety functions are carried out properly;
3. to promote and facilitate a competitive commercial environment in port operations; and
4. to improve productivity and efficiency in its ports and the port-related supply chain.

2 Business Overview and Strategic Summary

2.1 Business Overview

Vision: “We are internationally recognised leaders in the provision of efficient, integrated and innovative port marine services.”

Purpose: “To provide safe, efficient, sustainable, world-class port and marine services whilst retaining and optimizing our port assets to deliver the financial and strategic goals of the NSW Government.”

Objectives:

- A reputation as the best managed and best governed SOC in NSW
- A robust and sustainable port business
- A culture which strives for excellence

Values:

- We will be honest, open, caring and accountable
- We will act with courage and integrity and strive for excellence in all that we do

The Port Authority is responsible for all commercial marine functions in the ports of Newcastle, Sydney Harbour, Botany Bay, Port Kembla, Eden and Yamba, including the statutory Harbour Master’s function, the provision of pilotage and navigation services, and port safety functions as prescribed in the Port Safety Operating Licence. Port safety functions include the provision and maintenance of aids to navigation, marine pollution emergency response and administering the legislation concerning the handling, transportation and storage of dangerous goods within the jurisdiction of the ports. The Port Authority is also the regulator of the Hunter Coal Export Framework and a participant in the Hunter Valley Coal Chain Co-ordinator.

In Sydney Harbour, the Port Authority is responsible for the management of business activities and related assets - predominantly cruise activities at its two facilities, the Overseas Passenger Terminal (OPT) at Circular Quay and the White Bay Cruise Terminal (WBCT) at White Bay. Other business activities include management of the dry bulk facility at Glebe Island.

Section 10 of the *Ports and Maritime Administration Act 1995* states that the principal functions of a Port Corporation are:

1. To establish, manage and operate port facilities and services in its ports;
2. To exercise the port safety functions for which it is licensed in accordance with its operating licence; and
3. To facilitate and co-ordinate improvements in the efficiency of the port-related supply chain.

In addition, the *Ports and Maritime Administration Act 1995* states that a Port Corporation may:

1. Provide facilities or services that are ancillary or incidental to its principal functions; and
2. Conduct any business (whether or not related to its principal functions) that it considers will further its objectives.

In fulfilling its role, the Port Authority's main undertakings are:

Logistics and Trade

- Promotion and facilitation of a competitive commercial environment in port operations;
- Trade facilitation;
- Support and facilitation of the passenger cruise industry;
- Facilitation and coordination of improvements in the efficiency of port-related supply chain for Hunter Valley Coal; and
- Port promotion and marketing.

Navigation

- Shipping channels and navigation aids;
- Port communications and harbour control;
- Vessel traffic management;
- Emergency response;
- Security patrols; and
- Harbour Master.

Berth Services

- Common-user wharves;
- Passenger terminals; and
- Monitoring of port security.

Shipping

- Berth allocations;
- Advice on berthing requirements, i.e. pilots, tugs, lines, handling;
- Advice on Dangerous Goods procedures; and
- Port operational/e-commerce systems.

Pilotage

- Pilotage of vessels.

Port Assets

- Port estate management and property maintenance;
- Sites for cargo handling;
- Development planning; and
- Implementation of its Maritime Security Plans, in accordance with the *Maritime Transport & Offshore Facilities Security Act 2003*.

Port Safety and Environment

- Safe transfer of bulk liquids and Dangerous Goods;
- Emergency response to and subsequent investigations into marine accidents and incidents; and
- Emergency environmental protection services for marine pollution incidents.

The Port Authority's business is underpinned by the property assets for which it holds title and by the management and control of shipping in accordance with the Port Safety Operating Licence issued to it. The Port Safety Operating Licence establishes conditions to which the Port Authority is subject in its role to ensure navigational safety for international and interstate trading vessels in the ports and an appropriate response to marine emergencies.

2.2 Strategic Summary

The Port Authority is focussed on a strategy for:

1. Glebe Island / White Bay;
2. Creating Cruise Capacity;
3. Marine Governance; and
4. Effective Stakeholder Management.

2.2.1 Glebe Island / White Bay

Glebe Island and White Bay have been working ports for more than 150 years. Each has valuable and rare strategic port infrastructure, the last remaining in Port Jackson that links Sydney directly to global supply chains and provides a critical point of interface for major event logistics and on-water construction in Sydney Harbour. The current uses for cruise passengers, dry bulk materials and vessel refuelling are essential and valuable activities. The continued use of Glebe Island and White Bay as a working port is fundamental to the continued growth of Sydney as a competitive global city.

As UrbanGrowth NSW's Bays Precinct Urban Transformation Program (the Bays Program) evolves over the next 25 years and beyond, the port will also evolve as new uses emerge. The Port Authority believes the Bays Program to be a 'once in a lifetime' opportunity to seamlessly integrate critical port infrastructure into the proposed urban transformation in a manner that maximises both urban amenity and the strategic and economic value of the port for the people of NSW for the long term. This objective has found support in the Transformation Plan which states that:

Glebe Island offers the "...opportunity to support the blue economic activities of port and maritime industries, potentially combined with a technological and innovation campus..." and White Bay is described as an, "...integration of port and maritime industries with other employment uses..."

The Port Authority completed a Port Options Study during 2016, which was used to inform UrbanGrowth's Preliminary Business Case for development of Glebe Island. Government subsequently tasked INSW with an independent review to advise it in relation to key issues of supply chain impacts, port relocation feasibility and port integration feasibility.

Additionally, the Port Authority is working with Road and Maritime Services (RMS) and Transport for NSW (TfNSW) to understand the potential land use conflicts and implications and the key timing for a number of major transport projects that could have serious impacts on continued operation of White Bay and Glebe Island. Material in these are i) WestConnex ii) Western Harbour Tunnel and iii) Sydney Metro West. These projects plus potentially the construction needs of a new development at the White Bay Power Station site may create a further need for retention of port activities at Glebe Island, for example to facilitate the import of construction materials and large project items (such as tunnel boring machines) and export of clean rock spoil from tunnel boring and road heading.

The Port Authority will continue to work with other Government entities to ensure that whole of Government decisions about land use at White Bay and Glebe Island are supported by high quality analysis of supply chain impacts and by credible examination of potential for Government to meet its urban renewal aspirations while retaining its last deep water maritime capability, serving the centre of the city with essential construction materials.

Furthermore, the Port Authority will continue to try to find innovative solutions for the immediate, short term and ultimately long term provision of critical marine services to industries relying on efficient low cost supply chains directly into the city. The key focus will be on finding ways to commence key import activities for sand and aggregates and on transitional plans to move from early market activities to either a fully integrated long term solution or, at worst, cessation and/or relocation at some future point.

2.2.2 Creating Cruise Capacity

Cruise operations have been the fastest growing and most dynamic segment of the Port Authority over the past few years. In Sydney, activity has increased from 119 cruise vessel calls in 2009-10 to bookings for 336 vessel calls in 2016-17 and strong demand is expected to continue for the foreseeable future. To accommodate some of this increased activity, the Port Authority completed construction of the new WBCT at White Bay 5 in April 2013 and the refurbishment and capacity upgrade of the OPT at Circular Quay in September 2015. The significant upgrade of the OPT and wharf included a 60 metre wharf extension, an increased passenger clearance hall and a newly created check-in hall. The hall allows passenger debarkation and embarkation to occur simultaneously and has resulted in a significant improvement in efficiency as a result of the reduced time that ships need to be alongside the berth. In November 2016, the Port Authority completed the installation of two new 150 tonne bollards at OPT, significantly increasing mooring capacity and allowing the next generation of cruise ships, such as the *Ovation of the Seas*, to visit Sydney. The *Ovation* made its maiden voyage to Sydney in December 2016 carrying circa 4400 passengers and 1500 crew. It is booked to call at the OPT eight times in 2016-17 and eleven the following year.

The trend towards larger cruise ships with increased passenger capacity has meant an increase in deployment of ships that are too large to sail under the Sydney Harbour Bridge, with the OPT now operating at close to full capacity during the peak season of October to March under the current single slot per day offering.

The Port Authority has been reviewing its booking policy and operational practices with a view to optimising berth utilisation. In addition to continuing the existing practice of allocating vessels that fit under the Harbour Bridge to WBCT, a revised booking policy, to be introduced in July 2017, will further define and regulate the administration of slots based on a list of priority volume principles. Its aim will be to reduce cancellations through the introduction of an annual booking application window, a small cancellation fee and a slot booking priority system, giving priority to vessels that have Sydney as their home port and to larger vessels. The new policy will further optimise berth utilisation and resource allocation, improving overall port effectiveness.

A major initiative towards increasing capacity in Sydney is the prospect of ‘double stacking’ at the OPT, i.e. the turnover of two consecutive visits at the same berth within a 24-hour period. The Port Authority has already successfully completed three instances of back to back cruise operations at the OPT, which has been feasible due to efficiency gains and reduction of turnaround times from the OPT upgrade. The Port Authority is now reviewing options to introduce a standard second slot at the OPT during the peak cruise season. New operational practices would recognise repeat volume business, but also allow for an increase of one-off international visits and for new players to enter the Australian market via seasonal deployment of cruise ships in the region.

In Newcastle, the NSW Government through the Hunter Development Corporation has committed to funding a new dedicated cruise terminal facility to be constructed in 2018 in the Carrington precinct of Port of Newcastle. By providing a more professional welcome for passengers, the new purpose-built facility is expected to attract more cruise ships and position Newcastle as a home port, which in turn would have significant economic benefits for local industry.

In Eden, the NSW Government, the Federal Government and the local council have jointly committed to funding an extension of the existing wharf used for cruise ship berthing, to be completed in 2018, in the Snug Cove precinct of Crown Lands. The extension will allow cruise ships to berth at the wharf instead of having to moor in the harbour and tender passengers to and from shore, making Eden even more attractive as a cruise destination and boosting the local economy. The Port Authority, which has already provided substantial pricing incentives to

the cruise industry in order to visit Eden, is exploring ownership or operational control options of the cruise wharf.

In Port Kembla, the Port Authority is working with NSW Ports on opportunities to develop the port as a viable cruise ship destination. The first ever visit by a Royal Caribbean Cruise Line took place in October 2016.

2.2.3 Marine Governance

After the long term port lease transactions and amalgamation of SOC's, TfNSW led a process to review regulatory port related functions such as control of vessel movements, setting of speed limits, prime responsibility for installing and maintaining aids to navigation, hydrographic survey and promulgation of survey results, responsibility of aquatic events, incident notification and investigation. The process included a number of reviews, workshops, discussions and reports throughout 2015 and 2016, to which the Port Authority, RMS, TfNSW, Water Police and other government agencies had material contribution, and the outcome was the establishment of greater clarification of roles and responsibilities without the transfer of teams or assets between organisations.

The Port Authority will continue to guide TfNSW in any rationalisation of marine functions and services between Port Authority and RMS. Our goal is to lead the industry in coordinating and improving all marine services such as Towage, lines work as well as Pilotage. Work is currently being undertaken towards coalescing state-wide towage operational performance levels and conditions for all towage operators into a single contract / license.

2.2.4 Effective Stakeholder Management

The Port Authority interacts with a number of key stakeholders on a day to day basis including Government, media, community, industry and customers. Stakeholders are any group of people that can have a negative or positive impact on our business.

Our ability to have positive interactions and influence our key stakeholders is fundamental to the success of our business and reputation. This is because our stakeholders are diverse, complex, and in some instances have competing demands. It is also because the way we interact with and influence our stakeholders on a daily basis sets the foundation for how we work together in times of need. It is essentially about the need to build goodwill and advocates for our business and our vision. Building goodwill is particularly important as we move forward to address our key strategic issues around cruise capacity and the future of Glebe Island.

A key focus for influencing stakeholders will be communicating our vision, values and purpose; particularly important in an environment where there is an ever increasing expectation and demand for port operations to be sustainable. Our organisational values of honesty, openness, care, accountability, courage and integrity are the building blocks to this. For this reason, Port Authority will conduct a survey of our key stakeholders. The survey will set a benchmark for where we are in the eyes of our stakeholders in terms of our vision, values and purpose and where we need to be if we are going to be successful.

3 Financial Summary

	FY18 SCI	FY19	FY20
1. Financial Performance Indicators (\$'000s)			
Total Revenue ^{Note 1}	158,313	167,845	178,390
Total Expenses ^{Note 2}	123,565	124,949	126,693
EBITDA ^{Note 3}	35,079	43,825	52,070
EBIT ^{Note 4}	11,141	18,716	27,071
Net Profit (Loss) Before Tax	17,312	19,399	25,559
Income Tax Equivalent (Income) Expense	3,358	3,856	5,567
Net Profit (Loss) After Tax	13,954	15,543	19,992
Capital Expenditure	23,330	14,246	11,135
2. Financial Performance Indicators (\$'000s)			
Income Tax Equivalent Paid	6,844	5,168	6,734
Dividends Paid	5,171	200,000	33,500
Government Guarantee Fees Paid	5	Nil	2,302
3. Profitability Ratios (%) ^{Note 5}			
Growth in Operating Costs	6.7%	1.1%	1.4%
Return on Average Assets	2.0%	3.4%	5.2%
Return on Fixed Assets	2.4%	4.1%	5.9%
Return on Average Equity (%)	3.9%	5.7%	7.8%
Dividend Payout Ratio (%) ^{Note 6}	2474.8%	361.7%	271.3%

Note 1: Total Revenue excludes Finance Lease Income, Interest Income and CGT Reimbursement from NSW Treasury for White Bay asset sales.

Note 2: Total Expenses excludes Depreciation and Financial Expenses.

Note 3: Earnings Before Interest, Tax, Depreciation and Amortisation excludes Depreciation and Amortisation, Interest Income, Finance Lease Income and Financial Expenses.

Note 4: Earnings Before Interest and Tax excludes Interest Income, Finance Lease Income, recovery of capital costs, Financial Expenses and Income Tax Equivalent.

Note 5: All Profitability Ratios and Cash Flow Adequacy Ratios exclude asset revaluation adjustments, Finance Lease Income and Finance Lease Receivable.

Note 6: 'Dividend Payout Ratio' relates to the year in which dividends are provided for (not the year in which they are paid). Port Authority of NSW plans to commence providing for dividends in 2016-17.

Numbers quoted in the table above (and in subsequent tables) may be affected by rounding errors, but without material impact.

The Port Authority is included in the National Tax Equivalent Regime (NTER). NTER and any dividend payments to the Government are consistent with taxation rulings and the NSW Financial Distribution Policy for Government businesses.

3.1 Financial Distribution Policy

The Port Authority is able to pay dividends from 2017-18. The total dividends forecast to be paid during period 2017-18 to 2019-20 equal \$238.7m, inclusive of dividend payments of \$200m during 2018-19. The forecast payout ratios and amounts vary annually depending on financial performance, with the underlying assumption being for maximum payouts after setting aside sufficient working capital funds and maintaining a target credit rating of Baa2/BBB (Moody's/Standard & Poor's). This position will be reviewed each year with the view to maintaining the Baa2/BBB credit rating.

A target credit rating of Baa2/BBB consistent with NSW Treasury's Policy and Guidelines Paper TPP16-03 *Capital Structure Policy for Government Businesses* has been assumed from 2018-19. Consistent with this credit rating a dividend of \$200m has been provided in 2017-18 with payment in 2018-19 met by \$160m in new borrowings and \$40M by cash flows from operating activities. The SCI assumes that retaining these borrowings over the forecast period, and maximising dividend payouts after setting aside sufficient working capital funds, will be consistent with the target credit rating of Baa2/BBB.

The Port Authority expects to follow the distribution pattern outlined above until such time as the outcome of the Options Study and business case, as described in section 2.2.1 has been communicated. If necessary the Port Authority may then be required to borrow additional funds or utilise any surplus cash investments either on infrastructure to support the retention of port and maritime activity at Glebe Island or on supporting the relocation of these activities to other locations.

When Moody's credit rating committee handed down its rating decision on the Port Authority for 2016-17, it noted that the rating did not incorporate the Port Authority's possible involvement in the proposed Bays Program given the uncertainty as to the scope of the project and the extent to which the State would require the Port Authority to fund and execute such future capital works.

3.2 Financial Strategy

The Port Authority is the amalgamation of the residual entities of Newcastle Port Corporation (NPC), Port Kembla Port Corporation (PKPC) and Sydney Port Corporation (SPC), following the long term lease transactions completed in May 2013 for PKPC and SPC and in May 2014 for NPC. Post the transaction, SPC was left as a break-even and PKPC as a loss-making business and both had to individually implement significant reforms to restore profitability. Lessons learnt from the first transaction were used by Government and NPC management to ensure that the NPC residual business was able to deliver a small profit.

During the post transaction period and subsequent amalgamation into the Port Authority on 1 July 2014 controllable costs were aggressively reduced by 32% and staff numbers in Sydney downsized by more than 10%. At the same time, a systematic and continuous review of pricing levels and structures was implemented in order to ensure that all activities and business segments contribute towards achieving a target rate of Return on Fixed Assets.

4 Performance Target Summary

The objectives and measures summarised in this table are directly linked to the strategic initiatives detailed in Section 2.2.

FOCUS	OBJECTIVE	MEASURE	FY18
1 Financial	Optimize Shareholder Returns	Return on Fixed Assets	2.4%
	Grow Profits	EBITDA	\$35.1M
	Manage Debt	Gearing Ratio	n/a
	Cost Control	% Growth Rate	< CPI
2 External Stakeholder	Positive and effective relationship with Ministers and Staff	Chairman / Board Feedback <i>Note 1</i>	7/10
	Positive and effective relationship with Customers and Industry Stakeholders	Survey <i>Note 2</i>	7/10
3 People & Culture	A Safe Workplace	LTI's – Target / (Improvement on previous)	0 / (<7)
		Number of High Potential Incidents	0 / (<4)
		Safety Culture - % Favourable on Survey <i>Note 3</i>	>70%
		Safety Management System (Standards)	Established
		Safety Conversations	As per plan <i>Note 4</i>
	Safety Leadership Training	100% to plan <i>Note 4</i>	
	Highly Engaged Staff	% Favourable on Survey <i>Note 3</i>	80%
Effective Leadership	% Favourable on Survey <i>Note 3</i>	65%	
4 Internal Processes	Excellence in our Marine Operations	Adherence to Sailing Window Times	90% on time
		Shipping Line/Agent Satisfaction <i>Note 5</i>	>70%
		Emergency Response NPS <i>Note 6</i>	30 – 60
		VTS NPS	30 – 60
	Pilotage NPS	30 – 60	
Systems Review and Improvement	Systems Reviewed Annually <i>Note 7</i>	3	

Note 1 – meeting between Minister and Chairman, followed by Board meeting and assessment

Note 2 – 3rd party Survey consisting of interviews and online questionnaire

Note 3 – biannual employee survey conducted by 3rd party via online questionnaire

Note 4 – the plan includes detail relating to management level, frequency, timing, method etc.

Note 5 – to be measured by real time online survey

Note 6 – Net Promoter Score is a management tool that gauges customer relationship loyalty

Note 7 – internal review by management

5 Representation and Commitment Statement

The Board of the Port Authority confirms that:

- a) performance targets within the 2017-18 SCI are based on and supported by the Port Authority's Business Plan.
- b) the voting shareholders will be provided with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the shareholders' investment in the business.
- c) asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
- d) all known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of the Port Authority for the coming year have been disclosed.
- e) internal audit and risk management practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, has applied any additional requirements that are set out in NSW TPP15-03 Internal Audit and Risk Management Policy for the NSW Policy Sector.
- f) the Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for July 2018. The contract expires on 30 September 2019.

The Port Authority adheres to *Commercial Policy Framework* policies, as listed in *State Owned Corporations: Applicable TPPs under the Commercial Policy Framework* (issued as at December 2016).

The Port Authority complies with NSW Treasury accounting circulars and policies applicable for SOCs, as listed in the *State Owned Corporations Mandatory Accounting Policies – NSW Treasury Circulars and Treasury Policy Papers* (issued as at December 2016).

The Port Authority agrees to provide information during the year to NSW Treasury, as the representative of the Voting Shareholders, as specified in the *State Owned Corporation Reporting Obligation Requirements* (issued as at December 2016).

The Port Authority has agreed to comply with the requirements of *Premier's Memoranda M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations* and further guidance contained in the Treasurer's January 2015 letter.

The Port Authority will apply the principles of:

- a) Premier's Memoranda M2012 -08 Application of Biofuels.
- b) Premier's Memoranda M2013-04 Implementation guidelines for procurement of publicly funded construction services.