



PORTS OF AUCKLAND LIMITED

STATEMENT OF CORPORATE INTENT

For the period from 1 July 2021 to 30 June 2024

DRAFT

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DRAFT

STATEMENT OF CORPORATE INTENT

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1. Chair and CEO overview

The financial year to 30 June 2021 has been extremely challenging for Ports of Auckland. The COVID-19 pandemic, global supply-chain congestion and delays to our automation project have impacted on our performance and financial result. A fatal accident in the container terminal and a subsequent independent review of safety highlighted weaknesses in this area that are being addressed.

We have reflected on these events and looked at where we could improve. This has led us to reprioritise our goals for the short to medium term.

Our immediate priority is to focus on the essentials of our business. Safety, productivity, delivering automation and restoring profitability. This means working with our staff and unions to build a strong safety culture at work and increase staff engagement in the business. It means meeting the operational needs of our customers, completing automation, and investing in capital projects that will enable us to keep ahead of demand, like deepening Auckland's shipping channel.

If we do these things and keep our costs under control, we will have a safer, more productive workplace. We will reduce congestion, support New Zealand's economy and deliver a strong return to our shareholder.

This 2021 Statement of Corporate Intent (SCI) for Ports of Auckland sets out our priorities for the next three years.

2. Introduction

This Statement of Corporate Intent (SCI) is for Ports of Auckland Limited and its subsidiaries (referred to singularly or collectively as "POAL" or "the Company").

POAL is wholly owned by Auckland Council, referred to as "the Shareholder".

This SCI covers the period from 1 July 2021 to 30 June 2024, and has been prepared in accordance with the terms under Section 9 of the Port Companies Act 1988.

3. Purpose

The purpose of this Statement of Corporate Intent (SCI) is to:

- State publicly the activities and intentions of POAL and the objectives to which those activities will contribute; and
- Provide a basis for the accountability of the Board of Directors of POAL to the Shareholder for the performance of the Company and its subsidiaries.

4. Nature and Scope of Activities

POAL provides the following services:

- (a) container handling services through both the container terminal and general wharves.
- (b) breakbulk and bulk cargo handling services;
- (c) marine services which include pilotage, towage, hydrography and bunkering services – both directly and through its ownership of SeaFuels Ltd and Bunker Shipz Ltd, and its half ownership of North Tugz Ltd;

- (d) intermodal freight hubs in South Auckland, Waikato and Manawatu – both directly and through its ownership of Waikato Freight Hub Ltd and its one third ownership of Longburn Intermodal Freight Hub Ltd;
- (e) supply chain management services – both directly and through its ownership of Nexus Logistics Ltd and CONLINXX Ltd;
- (f) other port-related activities required to manage and operate an efficient and competitive port – both directly and through its half ownership of PortConnect Ltd; and
- (g) services and facilities to support the cruise ship industry – which is currently suspended due to COVID-19 border restrictions.

5. Vision

Working for Auckland and serving New Zealand, today and tomorrow. Kaitiakitanga.

Ports of Auckland's core business is to load and unload the ships, trucks and trains which carry Auckland and New Zealand's freight. We aim to do this safely and reliably.

We aspire to be a world-class port company known for our skilled people, innovation and sustainable practices. We are committed to working with the community in an open and transparent manner as we develop to meet Auckland and the country's needs.

6. Objectives

6.1 *Principal Objective*

Ports of Auckland is required by the Port Companies Act 1988 to "operate as a successful business". The Act does not define what it means by 'successful'; this is left to the Shareholder and the Port Company to define.

Ports of Auckland recognises that the previous 12-month period has been an unusual and difficult period for the company with a fatality, congestion due to the ongoing impact of covid on supply chains and declining financial performance. Accordingly, the business needs to focus on lifting performance in safety and productivity.

In consultation with the Shareholder, Ports of Auckland defines 'success' for the next 12 month period as achieving the following:

- Improvement in safety and wellbeing
- Recover container terminal productivity
- Deliver automation
- Rest of business achieves delivery and maintains stability
- Recover commercial position

6.2 *Improvement in safety and wellbeing*

Ports of Auckland will deliver 91% of the recommendations in the CHASNZ report by 30 December 2021 and will deliver all the recommendations by 30 June 2022.

Ports of Auckland will implement its own safety and wellbeing strategy over the period covered by this SCI. This plan contains a broader set of recommendations than those contained in the CHASNZ report and is aimed at delivering ongoing safety and wellbeing improvements.

6.3 *Recover container terminal productivity*

Ports of Auckland will continue to recruit and train staff in sufficient numbers to support a safe return to higher productivity and the delivery of automation.

POAL will increase terminal throughput to an average of 10,000 container moves a week through Fergusson Terminal for the six months to 30 December 2021 and restore container terminal productivity fully by 30 June 2022. This will be achieved when all vessel service berth windows are reinstated.

POAL will report on these measures quarterly to the Shareholder.

6.4 *Deliver Automation*

Ports of Auckland will deliver full terminal automation no later than 30 June 2022.

Automation is key to Ports of Auckland's future success. It allows the company to provide more container handling capacity without the need for further reclamation. Aucklanders have indicated that ending reclamation in the Waitemata is important to them and it is a key environmental and social benefit supported by automation.

Automation has been delayed by a combination of a fatality, COVID-19 related events and system underperformance. A recent hiatus, called as a result of the discovery of a potential safety issue, created time to reassess the plan for fully rolling out automation across the terminal.

Ports of Auckland now has a revised plan in place which is supported by all stakeholders and which can deliver automation successfully and safely.

6.5 *Rest of business achieves delivery and maintains stability*

COVID-19 response

As a border business, Ports of Auckland has a responsibility to protect staff and the country from COVID-19, and to comply with any Government rules in this regard.

A significant number of Ports of Auckland staff, those who work on or near ships, are required to be tested regularly and will soon need to be vaccinated to perform their role.

Ports of Auckland has encouraged these staff to get vaccinated and has worked with health authorities to enable vaccination on site so staff can get vaccinated easily and in work time. We will continue to provide this support and encouragement.

Ports of Auckland has also put in place its own, more stringent, rules around the transfer of ship crews on and off vessels at the port. These rules are intended to protect our staff, our business and Aucklanders, but they also provide protection for ship crews and a layer of protection for any ports or countries subsequently visited by ships which make crew transfers in New Zealand.

Multi-Cargo operations

While Ports of Auckland is often just seen as a container port, it has a significant general cargo operation that occupies roughly half the port's land area. The Multi-Cargo area handles a wide variety of freight of significant importance to the Auckland and New Zealand economy, and to Ports of Auckland's profitability. Freight types include most of New Zealand's cars and a significant volume of heavy vehicles; a range of economically critical bulk imports such as all of Auckland's cement, coal for power production and grains; and everything from construction steel to tunnel-boring machines.

Ports of Auckland is a major hub port of crucial importance for many Pacific nations, handling exports and transshipments for the Pacific Islands.

Our Multi-Cargo operation is very busy as a result of changes to MPI car inspections forced by COVID-19, increased coal imports as a result of drought, and a shift for some cargo types away from containerised shipping after major container price hikes.

The operation has held up well in the face of these challenges, though congestion in Multi-Cargo has increased. Ports of Auckland will need to ensure this part of the business is well supported to ensure it can continue to handle these increased trade volumes.

Maori Outcomes Framework

Ports of Auckland has committed to develop a Māori Outcomes Framework that recognises the unique relationship between Iwi of Tāmaki Makaurau, and we acknowledge the broader relationship of Māori in Tāmaki Makaurau and Maori organisations as people of the Treaty of Waitangi with us. Through developing the framework Ports of Auckland will identify where opportunities for the incorporation of Te Ao Māori concepts into our day-to-day work lie, and set out the means by which Te Ao Māori concepts can be drawn meaningfully into our work culture. The framework will recognise the need to place the hinengaro, tinana, and wairua of all staff into our culture. The framework acknowledges that safety and wellbeing is our top priority and will detail how Te Ao Māori concepts will reinforce the health and safety of everyone at the port.

Kaitiakitanga

Ports of Auckland recognises the important role we have to play as a guardian the whenua that we occupy. Over the past decade we have established our foundation for environmental management which in recent years has included the implementation of our Environmental Management System. We are proud to have built the EMS to the level of being certified to Toitū Enviromark Diamond accreditation. We will continue to strive towards this peak level of independent accreditation.

Ports of Auckland has recognised the importance of responding to the impacts of climate change. In the past 4 years we have been proactive in developing a robust decarbonisation pathway and supporting the Tāmaki Makaurau climate plan. The Climate Response Act formalises expectations and requirements of Auckland Council and all New Zealanders. Alongside, the Council entities, we are developing a Climate Response framework and contributes to the reporting requirements of the Council Group.

Hydrogen production and refuelling facility

Ports of Auckland have implemented an interim hydrogen fuelling system for refuelling Auckland Transport's trial Hydrogen fuel cell bus and a small number of passenger cars operating in the Auckland region. This has enabled us to trial a range of hydrogen powered plant and vehicles as part of our decarbonisation pathway. The project also provides partnering opportunities for other organisations in Auckland to trial hydrogen vehicles, similar to Auckland Transport trialling fuel cell buses.

Ports of Auckland is now undertaking an innovative partnership project for a commercial hydrogen production and refuelling facility at its Waitemata port. The partnership will construct a new hydrogen refuelling system with fast-fill capability and an electrolyser to produce green hydrogen on site. The project has been granted resource consent and procurement planning is underway. We will also provide regular updates on the progress of this project to the Shareholder.

Electric Tug – *Sparky*

Ports of Auckland is expecting the delivery of its new battery-powered tug *Sparky* either late 2021 or early 2022. This is another innovative project in support of Ports of Auckland's goal to be Zero Emission by 2040. The project has gone well, despite COVID-19 related challenges. Ports of Auckland will provide regular updates on progress as this project nears completion.

Community relationships

Ports of Auckland has committed to being open and transparent with the community in regard to its day-to-day operations and major capital projects. Our aim is to have a higher level engagement and consultation than is required by law. As an example, Ports of Auckland asked that its Channel Deepening Resource Consent Application be publicly notified even though this was not required.

Auckland Council relationship

It is important that Ports of Auckland and Auckland Council have a good working relationship at all levels and the Company looks forward to the continued growth and enhancement of this relationship. Central to this is the two-way principle of early engagement on key issues and a 'no surprises' approach, to which Ports of Auckland remains committed.

This need for a positive relationship extends to Council Group organisations, in particular where group projects or activity might impact on Ports of Auckland's ability to operate. For example, Watercare's stormwater upgrade project through the port, which is essential but which will also have significant impact on port operations.

6.6 Recover our commercial position and profitability

Success in the four objectives above will help ensure Ports of Auckland can recover its commercial position and restore profitability. In addition, Ports of Auckland will focus on keeping costs under control and staying within its agreed budget for coming years.

As part of the Council Group, Ports of Auckland's debt is consolidated into Council accounts. Ports of Auckland will work with the Shareholder on a strategic approach to its capital expenditure, to help ensure the optimum use of debt across the Council Group.

Ports of Auckland will continue to robustly assess all significant capital expenditure projects before committing to them.

Ports of Auckland will continue to make the investments needed to ensure it can meet the needs of importers and exporters and remain competitive with other ports in Oceania and Asia. This includes completing automation and deepening Auckland's shipping channel, a project which has been held up by appeals and is now urgently required.

It is standard practice for Ports of Auckland to review major capital projects after completion, as a way of evaluating the success or otherwise of the project and to learn how to improve future projects. Such a review will be carried out once automation is complete and a summary of the results will be shared with the Shareholder.

7. Key Performance Targets

Objectives	Key Performance Measures	Actuals				Targets	
		2021	2022	2023	2024		
Improvement in safety and wellbeing	Percentage reduction in number of lost time injuries	n/a	15%	25%	15%		
	Number of fatalities	1	0	0	0		
	CHASNZ recommendations implemented		100%				
Recover container terminal productivity	Crane rate (as measured by MOT)	24.6	25	26	30		
	Ship rate (as measured by MOT)	36.9	62.5	65	75		
	Container Terminal – Truck turn around time ¹	79.1%	80% at <60 min	85% at <60 min	90% at <60 min		
	Container Terminal – Truck average turn time ¹	38	38	35	33		
Deliver automation	Successfully implement automation by 30 June 2022						
Rest of business achieves delivery and maintains stability	Hold quarterly community reference group meetings to provide a forum for community feedback and dialogue re POAL's operations and development plans.						
	Attend all relevant Auckland local Board meetings where invited and strengthen relationships with the Ōrākei, Waitemata and Devonport-Takapuna local boards.						
	All public environmental complaints acknowledged within 24 hours						

Objectives	Key Performance Measures	Actuals	Targets		
		2021	2022	2023	2024
	Target detailed response timeframe for complaints (where required): 90% within 7 working days and 100% within 10 working days				
	Strengthen relationships with mana whenua.	Develop and implement a Māori Outcomes Framework by 2023.			
	Number of harbour spills caused by POAL	0	0	0	0
	Work towards POAL's long term environmental sustainability goals of being carbon neutral by 2025, emission free by 2040 and zero waste to landfill by 2040.				
	Emission target reductions (absolute emission reductions for POAL Group carbon emissions against 2017 baseline year)	Note ²	2%	3%	3%
	Percentage of land-side moves on rail	13.6%	14%	14%	14%
	Multi-cargo terminal: average car dwell times (days)	2.1	2.85	2.85	2.85
Recover our commercial position	Increase in revenue	-2.4%	13.2%	13.3%	16.4%
	Interest coverage ratio	2.1	2.4	3.0	4.0
	Net Profit after Tax (NPAT)	\$41m	\$21m	\$32m	\$55m
	Dividend declared (includes group tax offset)	Note ³	\$2.1m	\$5.3m	\$19.8m
	Return on Equity (NPAT / average Equity)	4.6%	2.1%	3.2%	5.4%
	Ratio of consolidated shareholders' funds to total assets	60.6%	60.6%	61.1%	62.0%

Notes:

¹ the measurement of truck turn times has changed to start measuring the time at the first point of registration at our kiosks or road offices.

² the Actual emission reductions for FY2021 are yet to be calculated as the audit is in September 2021.

³ a dividend for the year ending 30 June 2021 is yet to be declared.

8. Dividend Policy

Dividends will be based on a rising percentage of free cash flows to allow POAL to sustain an optimal capital structure. Each year the Board will review its ability to pay dividends after giving consideration to the ongoing needs of the business, the riskiness of the market environment, the requirements of the Companies Act and the statutory obligations imposed on Directors. Declared dividends will be paid in two instalments in February and August.

9. Accounting Policies

POAL has adopted accounting policies that are consistent with the New Zealand International Financial Reporting Standards (NZ IFRS) and other standards issued in accordance with the Companies Act 1993 and the Financial Reporting Act 1993 and any amendments thereto.

A full statement of the Company's accounting policies is set out in the audited annual Financial Statements.

A register of accounting policies will be provided to the Shareholder's Financial Planning Team in accordance with the Shareholder's timetable.

10. Information to be provided to the Shareholder

Statutory Information Requirements

Annual Statement of Corporate Intent (SCI)

POAL will provide the Shareholder with a draft SCI for discussion and a final SCI as required by the Port Companies Act, working with the shareholder to meet its timetable.

Half Yearly Report

Within seven weeks after the end of the first half of each financial year, the Company will deliver to the Shareholder and the Minister of Transport its Half Yearly Report prepared in accordance with the NZ IFRS and the Financial Reporting Act 1993, including the unaudited group consolidated financial statements and performance commentary, together with such other information as the Board consider appropriate.

The report will include:

- Performance Commentary,
- Income Statement,
- Balance Sheet, Flow Statement,
- Statement of Changes in Equity,
- Notes to the Financial Statements,
- Performance against the SCI Key Performance Targets and other measures.

Annual Report

Within three months after the end of each financial year POAL will deliver to the Shareholder and the Minister of Transport its Annual Report prepared in accordance with the reporting requirements of the NZ IFRS and the Financial Reporting Act 1993 and will include the audited annual group consolidated financial statements and performance commentary, together with such other information as the Board consider appropriate.

The report will include:

- Performance Commentary,
- Income Statement,
- Balance Sheet,
- Cash Flow Statement,
- Statement of Changes in Equity,
- Notes to the Financial Statements,
- Performance against the SCI Key Performance Targets and other measures
- Auditor's Report, and
- Climate Adaptation Report.

Other Information Requirements

Quarterly Reports for Quarter 1 and Quarter 3

Within five weeks after the end of quarter 1 and quarter 3, the Company will deliver to the Shareholder a report on the preceding quarter, consisting of the following:

- Financial update as at the end of the quarter showing progress against budget, including the return on equity (ROE);
- Progress against the SCI Key Performance Targets;
- Commentary on progress on key issues affecting or likely to affect the business; and
- Any significant events that have arisen in the quarter.

Annual Shareholder Meeting

At a time to be agreed with the Shareholder, POAL officers will present to the Shareholder on the performance of the Company as well as progress on key issues affecting or likely to affect the business, and any significant events that have arisen.

One-off public and ‘no surprises’ issues, including media releases

The Company will endeavour to:

- inform the Shareholder prior to any significant decisions being made public or the occurrence of any event that could reasonably be anticipated to have a high level of public interest
- provide the Shareholder with copy of any media releases prior to publication.

The information is to be provided to the Mayoral Office and Shareholder’s Communications Team.

Material financial changes

The Company will confer with the Shareholder’s Financial Planning Team on any material acquisitions, capital expenditure, disposals or other changes which affect the Shareholder’s accounting or financial reporting treatment or obligations before contractual commitments are entered into.

Primary line of communication

The Company’s primary line of communication, for all formal reports and ad hoc business matters, is direct to the CCO Governance team of the Shareholder. The Company will also have a direct line of communication to the Mayor of Auckland.

Financial reporting requirements

POAL will provide all public benefit entity reporting requirements to the Shareholder as required by the Shareholder’s timetable. The information will be provided to the Shareholder’s Financial Planning Team.

11. Investments

The Company's ability to subscribe for, purchase or otherwise acquire shares in any company or other organisation is governed by the provisions in the POAL Constitution and the Companies Act 1993.

12. Compensatory Activities

The Company will seek compensation for all non-commercial activities performed by it on behalf of local authorities.

13. Value of Shareholder’s Investment

The assessed market equity value of Ports of Auckland Limited based on an external review undertaken effective 30 September 2020 is \$1.57b to \$1.90b, with a mid-point of \$1.735b.