



ESPERANCE PORTS

Sea & Land



Statement of Corporate Intent

July 2014 – June 2015





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MISSION, VISION AND VALUES

The Port's primary role is to facilitate trade, to support the industry in this function, operate in a safe and efficient manner and return a dividend to the Government of WA. Collectively, the Mission, Vision and Values statements supporting its aspirations over the period 2014/15 are:

MISSION:

- To provide services that are competitive, innovative and customer focused.
- To work with our people and our partners to deliver economic growth to the region.
- To operate in a socially responsible and sustainable manner.

VISION:

- To be the preferred gateway Port to the Yilgarn and Goldfields-Esperance Regions of Western Australia.

VALUES:

- Demonstrate efficiency and business acumen to our shareholders.
- Show respect and integrity in dealings with our staff.
- Provide service and act professionally and responsively to our customers.
- Be open and engaging with members of our community.
- Recognise our role in preserving our heritage and environment.



INTRODUCTION

The Esperance Port Authority trading as Esperance Ports Sea and Land “**EPSL**” is a corporate body constituted under the Western Australian Government’s Port Authorities Act 1999.

The Esperance Port is currently the deepest Port in Southern Australia servicing the Yilgarn and Goldfields-Esperance regions of Western Australia.

The Goldfields-Esperance region is a vast land area of 769,700 square kilometres which covers just under one third of Western Australia’s land mass and is home to approximately 60,000 people (2011).

The region is characterised by two large population centres (Kalgoorlie-Boulder, 41,889 and Esperance 17,551) and vast areas of low population density.

The Gross Regional Product (GRP) in 2009-10 was \$8.1 billion, representing 4.4% of the Gross State Product. The extraction and processing of minerals accounted for \$7.7 billion of the GRP, with manufacturing, retail, agriculture and tourism contributing the balance.

The Port of Esperance and has the following responsibilities:

- To facilitate trade through the Port and plan for future growth and development of the Port;
- To undertake or arrange for activities that will encourage and facilitate the development of trade and commerce generally for the economic benefit of the State through the use of the Port and related facilities;
- To control business and other activities in the Port or in connection with the operation of the Port;
- To be responsible for the safe and efficient operation of the Port;
- To be responsible for the maintenance and preservation of vested property and other property held by the Port; and
- To protect the environment of the Port and minimise the impact of Port activities on that environment.

As required under Section 58(1) of the Port Authorities Act 1999, the Board of the Esperance Port Authority has the responsibility for preparing a Statement of Corporate Intent to cover the next financial year. It is intended to satisfy Public Accountability obligations and is to be consistent with the Strategic Development Plan, which covers the next 5 years.



PORT SERVICES AND FACILITIES

Berth 1

Commissioned in 1965, Berth 1 is used largely for exporting grain via a ship loading facility owned and operated by Co-operative Bulk Handling (CBH). The depth alongside Berth 1 has been deepened on two occasions to allow loading of Panamax sized vessels to 70,000 tonnes.

Berth 2

Berth 2 is a multi-function, multi-user Berth that was commissioned in 1972. With a depth of 14.5 metres alongside it is capable of servicing a Panamax sized vessels.

Operating from Berth 2 is a dual-purpose hybrid crane with the ability to provide for the import and export of bulk commodities and containerised trades, and in the Port's case, predominately containers carrying Nickel.

The Berth also facilitates other trades including sulphur, fertiliser and fuel. Sulphur and fertiliser is temporarily stored onsite prior to being transported whilst the fuel is pumped via a pipeline, built in 1978, 3.5km to the fuel farm located in town.

Berth 3

Constructed in 2000/2001 with a depth of 19 metres and a shiploader capable of out loading at a rate of 4,500 tonnes per hour, Berth 3 is a dolphin berth structure that allows the Port to accept and load Cape size vessels to the capacity of 200,000 tonnes.



Iron Ore Infrastructure

There are four iron ore storage sheds situated on Port land of which Cliffs Asia Pacific funded and built two. The sheds can accommodate more than 900,000 tonnes and are fed directly from a rotary car dumper of which unloads ore from arriving trains. The ore is then conveyed through the system either directly to the sheds or to Berth 3 shiploader for outloading.

Grain Infrastructure

Co-operative Bulk Handling (CBH) own and operate the grain facilities at the Port. Silo's and storage facilities hold up to 250,000 tonnes of product that is outloaded via the Berth 1 shiploader.

Sulphur Infrastructure

In 2007, a 120,000 tonne sulphur storage facility was constructed and designed to accommodate and outload imported sulphur on behalf of the Ravensthorpe Nickel Operation. Sulphur is imported in bulk form and stored for a period of time prior to being transported to the minesite.

Towage Services

Mackenzie's Tug Service has been the provider of towage services at the Port of Esperance since the 1970's and offer a fleet of three tugs with a 65 tonne bollard pulling force.



MARKET OUTLOOK

Multi User Iron Ore Facility

During 2012 EPSL completed a market sounding exercise which determined that there was sufficient bankable demand and investor interest to proceed with the procurement process for the development of a Multi-User Iron Ore Facility. The procurement is based on securing a proponent to build, own and operate the facility on a common user basis.

The Registration of Interest – Pre-qualification component of the procurement process was completed in April 2013, with two proponents being shortlisted and invited to participate in the Request for Proposal stage of the process. It is envisaged that selection of the proponent will be completed within the first quarter of 2014, with achievement of financial close by early quarter 3 of 2014. At this stage, it is expected that capacity will be developed incrementally in a manner that will not constrain future development should demand increase beyond that which has been identified in the market sounding process.

Berths 1 & 2

Berth 2, which handles a variety of import and export materials, continues to operate at a high level of occupancy. During 2013 the Port received a number of potential trade enquiries relating to containerised products and other bulk commodities such as sulphur, mineral concentrates, logs and woodchips.

The Port recognises the escalating demand for Berth occupancy and with a view to increasing overall Port capacity, the Port completed negotiations with Shell to develop additional fuel off-take capacity at Berth 1 and developed container hardstand space by demolishing redundant bulk nickel concentrate storage facilities adjacent to Berths 1 and 2.

The Port has also sought funding through the Royalties for Regions program to undertake an integrated Port Master Plan which identifies options for the development of additional capacity and access at the Port, inclusive of berthing, hardstand and ancillary storage, internal traffic management including heavy vehicle and rail access. The Master Plan will investigate market demand, assess various design options, and consider relevant environmental issues and funding mechanisms. Current work being undertaken, such as the Multi-User Iron Ore Facility and a study to identify short, medium and long-term strategies to ensure maximum efficiency on Berth 2, will inform the Master Planning process.

It is expected that the Master Plan will be the basis for any future submissions to the State Government on the significant capital investment necessary to enable the Port to continue to facilitate trade for the Goldfields-Esperance region.

MAJOR PLANNED PROJECTS

Management

- Completion of the Multi-User Iron Ore Facility procurement process and transition to contract and financial closure.
- To effect the merger of the Esperance Port Authority into the Southern Ports Authority by 1 July 2014.
- Complete negotiation of the Esperance Ports Sea & Land & MUA Enterprise Agreement 2011/14 (expiring 31st December 2013).
- Close-out the processes through which legacy contractual issues with key clients have been addressed.
- Implement key projects identified within both the planning and risk management processes through the establishment of a Project Management Office which has been implemented to ensure delivery of these key projects within identified timeframes and budgets.

Operational

- During 2013 the Port secured the necessary environmental approvals to undertake maintenance dredging of the Port. Dredging is expected to occur in 2014.
- Completion of the Port entrance works to align with the Esperance Transport Corridor Project which requires a capital investment in the region of \$11M.
- Berth 3 Wharf and Shiploader planning of corrosion protection works.
- Business cases to be developed to upgrade the Berth 2 Container Hardstand.
- Continue on-going marine sediment and air quality baseline sampling and monitoring.
- Complete the Container Management Plan which will guide the container business into the future.

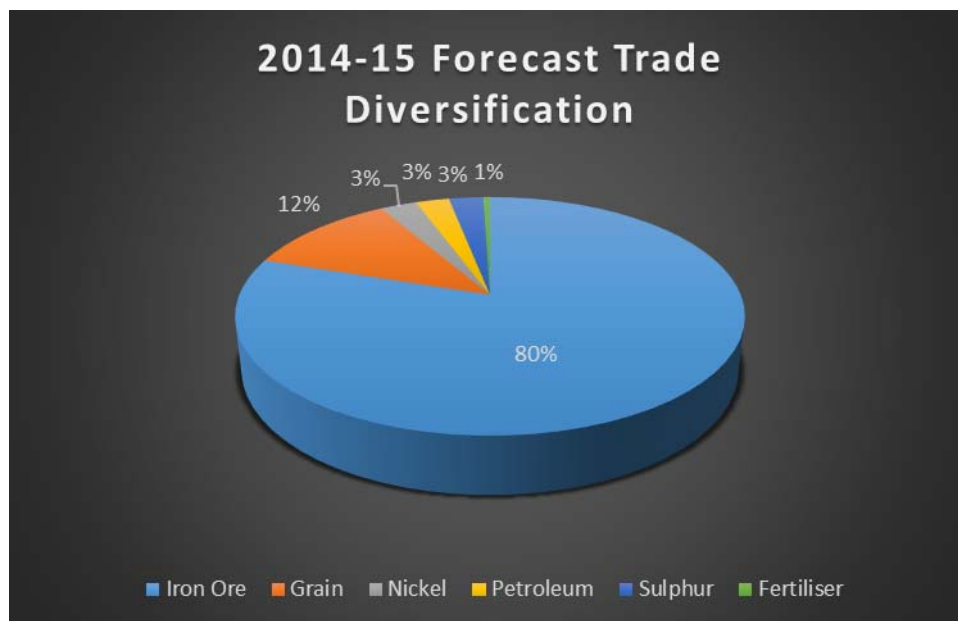


ESTIMATES OF OPERATING REVENUE AND EXPENDITURE

The figures provided in the tables below are predicated on the unapproved financial schedules contained in this document. These schedules contain information in relation to capital expenditure that is not yet approved. The approved schedules are also included.

| PORT TRADE (Cargo Tonnes) | 12 Months to 30-06-2014 000's | 12 Months to 30-06-2015 000's |
|--------------------------------------|--|--|
| Imports | 740 | 810 |
| Exports | 12,930 | 13,050 |
| Total Trade | 13,670 | 13,860 |

For the 2014-15 year, the Port is expecting a marginal increase in the key export of iron ore with all other commodities forecast to be stable.



| OPERATING BUDGET | 12 Months to 30-06-2014 \$000's | 12 Months to 30-06-2015 \$000's |
|---------------------------|--|--|
| Revenue | 67,908 | 74,390 |
| Expenditure | 74,097 | 68,298 |
| Operating Profit /(Loss)* | (6,189) | 6,092 |
| Income Tax Expense | - | - |
| Dividends | - | - |

Growth in revenue in 2014-15 is primarily on the back of improved stevedoring contractual Terms. Expenditure reduction in 2014-15 reflects the completion of the Multi-user Iron Ore Facility feasibility stage and the clearance of the backlog of the majority of major maintenance projects.

As announced by the Government on 19 May 2011, the Esperance Port Authority will be enacting a series of savings initiatives designed to meet a 5% efficiency dividend between 2011-12 and 2014-15. In August 2012, the Government requested that a further efficiency dividend be implemented of 1.5% for 2012-13, increasing to 3% for 2013-14, 4.5% for 2014-15 and 6% for 2015-16. The savings targeted in each year are displayed below.

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2011 Efficiency Dividend | \$1,339,850 | \$1,401,600 | \$1,451,700 | \$1,451,700 | |
| 2012 Efficiency Dividend | | \$ 323,000 | \$ 687,000 | \$1,030,000 | \$1,374,000 |
| Total | \$1,339,850 | \$1,724,600 | \$2,138,700 | \$2,481,700 | \$1,374,000 |

CAPITAL EXPENDITURE AND BORROWING REQUIREMENTS

| | 12 Months to 30-06-2014 \$000's | 12 Months to 30-06-2015 \$000's |
|--------------------|--|--|
| Minor Assets | 5,000 | 5,000 |
| Port Entry Upgrade | | 11,200 |
| Rail Renewal | 2,000 | |
| Total | 7,000 | 16,200 |

| FUNDING | 12 Months to 30-06-2014 000's | 12 Months to 30-06-2015 000's |
|----------------------|--|--|
| Internal | 5,000 | 5,000 |
| Borrowings | 2,000 | 11,200 |
| Total Funding | 7,000 | 16,200 |

PROPOSED PRICING ARRANGEMENTS

The Esperance Port is wholly owned by the Western Australian Government. The Ports commercial focus is to generate a return for its owner that is in accordance with the current Western Australian Governments ports pricing policy objectives. This objective is to generate a profit that delivers a reasonable rate of return reflective of the current value of its assets, benchmarked against equivalent market returns of similar infrastructure assets.

EPSL's policy is for Port charges to be structured on the basis of "user pays", with an objective of providing a fair and equitable playing field for all customers of the Port, with no cross subsidisation of Port costs between users.

Charges are structured on the basis of achieving a long term target rate of return based on the current value of the Port' assets, as set by Government.

The rate of return is derived from the Depreciated Optimised Replacement Cost (DORC) value of Port assets.

This methodology results in:

- A more equitable charging structure that is more reflective of charges in the private ports sector, of which include a risk return for equity contribution; and
- Provides a profit stream for the Government from its historical port investment that is available to be used for re-investment in port assets, and to provide dividends back to Government from its investment in the ports assets.

Benchmarking by EPSL in 2012 has shown that generally EPSL Port charges are in the lowest quartile of those charged by Western Australian ports. EPSL's management is progressively restructuring charges to ensure that the charges are more reflective of current Government policy, and in the process ensures EPSL is in a position to operate on a profitable basis.

It is proposed that Port charges will generally increase by a minimum of CPI for the 2014-15 year.

DIVIDEND POLICY

The current dividend policy of 65% of after-tax profits requires the Port to pay dividends when approved jointly by the Minister for Transport and Treasury. The payment on the dividend in each year will be according to the Port Authorities Act 1999.

PERFORMANCE INDICATORS

| Operations | 12 Months to 30-06-2014 | 12 Months to 30-06-2015 |
|---|------------------------------------|------------------------------------|
| Diversification of Trade | | |
| Iron Ore | 80% | 80% |
| Grain | 12% | 12% |
| Nickel | 3% | 3% |
| Petroleum | 3% | 2% |
| Sulphur | 2% | 2% |
| Other | 1% | 1% |
| Average Turn-around Time (Hours) | 74 | 77 |
| Berth Occupancy Rate | | |
| No. 1 Berth | 35% | 35% |
| No. 2 Berth | 61% | 67% |
| No. 3 Berth | 61% | 61% |

| Financial | 12 Months to 30-06-2014 | 12 Months to 30-06-2015 |
|------------------------------------|------------------------------------|------------------------------------|
| Total Revenue per Tonne | \$4.97 | \$5.37 |
| Total Expenditure per Tonne | \$4.58 | \$5.00 |
| Rate of Return (Deprival) | -2.1% | 3.3% |
| Debt Ratio | 78% | 73% |

ACCOUNTING POLICIES

The accounting policies of the Esperance Port Authority are consistent with Australian Accounting Standards. The Port Authority has been preparing financial statements compliant with International Financial Reporting Standards (IFRS) to meet financial reporting requirements from July 2006.

In addition the Port Authorities Act 1999 defines policies and procedures which reflect the requirements of Corporations Law.

MINISTERIAL INFORMATION

The Port Authority will inform the Minister on a regular basis of all matters that the Board and the CEO consider are appropriate under the terms of the Port Authorities Act 1999.

An annual report, half yearly and quarterly report together with Statement of Corporate Intent and Strategic Development Plan as required under the Port Authorities Act 1999 will be provided to the Minister. These documents will provide all necessary information including Financial Statements and comments on performance to enable a correct assessment of the Port.

The Annual and half yearly reports will include the following Information:

- A report on the major operations and activities of the Esperance Port Authority during the year.
- Financial Statements.
- Any other information required by legislation to be included in the Annual Report such as the particulars of any direction given by the Minister.

COMMUNITY SERVICE OBLIGATIONS

The Port Authority has no prescribed community service obligations. However, the Authority is committed to the principle that the Port's activities in facilitating trade are undertaken in such a way as to meet the expectations of both the community in which it operates and its clients. The Authority recognises and supports the economic, social, cultural and environmental requirements of the local community.

The Port encourages local businesses to provide goods and services that are required for the operation of the Port. This is accomplished by direct contact, local advertising, allowing local content opportunities in major contracts and employing local staff.

The Port currently sponsors a range of community organisations and projects that align with our strategic goals and current priorities. The current sponsorship includes local schools, sporting clubs and community groups.

From 1 July 2013, the ESPL commenced receiving an Operating Subsidy Payment (income to ESPL) and Government Equity Contribution equivalent to the capital and interest repayments on the impaired and non-operational Mineral Concentrate Circuit. The respective budgeted amounts for 2014-15 are:

| | |
|---------------------------------------|------------------------|
| <i>Operating Subsidy Payment</i> | <i>\$0.826 million</i> |
| <i>Government Equity Contribution</i> | <i>\$1.960 million</i> |



ESPERANCE PORTS

Sea & Land



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**ESPERANCE PORT AUTHORITY
APPROVED FINANCIAL PARAMETERS
2014/15**

| | \$'000 |
|--------------------------|---------------|
| Total Revenue | 74,400 |
| Total Expenses | 68,308 |
| Profit/(Loss) Before Tax | 6,092 |
| Notional Income Tax | 0 |
| Profit/(Loss) After Tax | 6,092 |
| Dividends | 2,970 |
| <hr/> | |
| Asset Investment Program | 16,200 |

To the extent that the financial parameters within the 2014/15 – 2018/19 SDP contain unapproved capital expenditure, net debt and net flows to/from government, Government approval will be obtained prior to any commitments and/or actions being undertaken which will affect approved parameters. Government approval will also be sought prior to commencing new projects not included within the State Government's approved financial parameters.