



ESPERANCE PORTS

Sea & Land



STATEMENT OF CORPORATE INTENT – 2011/12



PORT INFRASTRUCTURE OVERVIEW

The Port of Esperance handles a diverse range of products and provides infrastructure to import or export these cargoes. The infrastructure includes:

Berth 1

Commissioned in 1965, Berth 1 is used mainly for loading grain with the ship loading facility owned and operated by Co-operative Bulk Handling (CBH). The depth alongside the berth has been deepened on two occasions and can now berth and load Panamax sized vessels to 70,000 tonnes.

Berth 2

Commissioned in 1972, this multi function berth has a dual-purpose hybrid crane for the discharge of bulk commodities and the loading and discharge of containers. The berth also has a shiploader that is used to load bulk minerals such as nickel concentrate. Fuel products (petrol and diesel), sulphur and fertiliser are discharged at the berth. The Port owns both shiploaders on the berth and associated conveyors and sheds. The Port also owns an oil pipeline that is used to pump the fuel products 3.5km from Berth 2 to the fuel farm. This pipeline was laid in 1978.

Berth 2 has also been deepened on several occasions, now has 14.5 metres of depth alongside and is capable of berthing a Panamax sized vessel.

Berth 3

This dolphin berth was constructed in 2000/2001 to enable the Port to berth and load Cape size vessels to 200,000 tonnes. Berth 3 is the Port's iron ore berth and includes a shiploader with a nominal 4,500 tonne per hour capacity that is linked to the associated iron ore storage and handling facilities.

The depth alongside the berth is 19 metres and the turning basin adjacent to the berth is 16 metres deep.

Iron Ore Infrastructure

The Port has four iron ore storage sheds with a total storage capacity of more than 900,000 tonnes. The sheds are connected to a rotary car dumper that unloads iron ore trains with the ore being transferred to the sheds by a system of conveyors. Loading is from the Berth 3 ship loader.

Cliffs Asia Pacific (CAP) owns the single-cell rotary car dumper which has a capacity of 2,200 tonnes an hour. CAP has funded and built two of the four iron ore storage sheds located at the Port. The Port operates and maintains the rotary car dumper. Most of the extensive iron ore infrastructure is owned by the Port.

Mineral Concentrate Infrastructure

The Port has been handling mineral concentrates in bulk since the 1960's. Previously nickel was brought into the Port using nine tonne kibbles and transferred to storage sheds via a hopper and conveyor circuit.

Under the Mineral Concentrate Circuit Upgrade (MCCU) program completed August 2009, this circuit was upgraded and enclosed to meet the requirements of the Department of Environment and Conservation's (DEC) operating licence conditions in which kibbles are no longer an acceptable mode of transport into the Esperance Port.

Concentrates are now carried into the Port using enclosed Half Height Containers (HHC's). Both Xstrata Nickel and Western Areas Nickel export nickel using the container crane located on Berth 2, while BHPB Nickel West transport the product to the Port in HHC's, which are emptied into the storage sheds via the upgraded circuit and then out-loaded onto ships in bulk form on Berth 2 from a dedicated enclosed shiploader.

Grain Infrastructure

Grain infrastructure consisting of silo's and storage facilities capable of storing 250,000 tonnes of grain product is owned and operated by Co-operative Bulk Handling (CBH).

A portion of land along with Berth 1 is leased from the Port to allow the exportation of grain product using out-loading infrastructure installed by CBH

Other Infrastructure

The Port built a 120,000 tonne sulphur storage facility for the Ravensthorpe nickel operations and purchased the dual-purpose hybrid crane for the discharge of bulk commodities and the loading and discharging of containers for the Ravensthorpe project.

Land is leased to Summit Fertilisers to store imported fertiliser.

Towage Services

These are provided under contract to the Port by Mackenzie Towing Services. The company currently has two modern harbour tugs with bollard pulls of 65 and 70 tonnes.

CURRENT AND PROJECTED OPERATING ENVIRONMENT

Grain exports through the Port continue to increase. The 10-year export average to 1997/98 was 700,000 tonnes per annum. Between 1998 and 2010, grain exports have ranged between one million and 1.8 million tonnes per annum, with the figure being higher in recent years. Subject to seasonal conditions, harvests of this magnitude can be expected to continue as many farmers in the Esperance region have moved from livestock into grain production. The 2009/10 export was about 1.6 million tonnes. This dramatic growth in grain exports is supported in CBH's 1999/2000 investment of \$68 million to upgrade its grain terminal at the Port.

The Port's other major trade, **iron ore**, has increased significantly during recent years as a result of CAP's decision to expand its operations through the Port. In 2009/10, the Port's license to

export was 8.8 million tonnes of iron. An application to permit an increase of exports to 11.5 million tons per annum was approved in September 2010 by the EPA. *Further approvals will be required to include the needs of other potential exporters.*

Discussions continue with prospective iron ore exporters Cashmere Iron Limited (CIL), FairStar (FSR) and Golden West Resources (GWR) for a throughput of 10 million tons per annum of their combined production. Other producers that have been in contact with the Port during the past year include Macarthur Minerals Ltd, Jupiter Mines Ltd and Metsa Iron with a view to entering into agreements to ship their product in coming years. These projects are at varying stages of development.

Nickel concentrate exports have historically totalled less than 300,000 tonnes per annum, and are currently budgeted at 228,000 tonnes per annum. Market prices, however, are recovering and the Ravensthorpe mine is expected to start production during 2011. Exports of this commodity will continue over Esperance with bulk exports losing ground to the containerised options. BHPB NW have indicated that the throughput of their product will be marginal, mainly consisting of overflow from the Kambalda smelter.

The modifications and associated works to the mineral concentrate circuit that were commenced in 2008/09 are due for completion in 2010/11 at an estimated cost of \$23.8 million. The usage of this circuit is falling with HHC's becoming the mode of choice. The financial implications of the upgrade are considerable for the Port.

Galaxy Resources anticipate exporting 137,000 tonnes of **spodumene** commencing late in 2010. The Port has had extensive discussions with Galaxy Resources to establish storage and out loading solutions for the export of the product.

Fertiliser imports are budgeted at 60,000 tonnes a year during the coming years. However, the demand for fertiliser varies with seasonal conditions and may fluctuate between 60,000 to 100,000 tonnes per annum. It is expected that liquid fertilisers, shipped using containers, will progressively displace dry bulk shipments.

Petroleum imports have been increasing from around 260,000 tonnes per annum during 2004/05 and 2005/06 to 340,472 tonnes in 2008/09 after peaking at 404,472 tonnes in 2007/2008. Petroleum imports have been budgeted at 350,000 tonnes per annum for 2011/12.

PLANNING FOR FUTURE GROWTH

Land Transport Access

This SCI is underpinned by the assumption that the Transport Corridor redevelopment will be completed by 2012/13 which enables the Port to expand with community and government agency support.

The existing Esperance transport corridor generates safety and traffic concerns with the community. With the predicted growth in Port trade from 11 million tonnes to 20-23 million tonnes within the life of the Statement of Corporate Intent, community opposition could be significantly detrimental to future development of the port and expansion of trade.

FINANCIAL INFORMATION

The Port is expecting revenue to be \$53.39 million . Total expenditure in 2011/12 is budgeted at \$51.94 million resulting in a budgeted operating surplus of \$1.45 million. Wharfage, vessel, and cargo handling activities are budgeted to increase along with charges for services provided. Tonnage through-put is budgeted to increase by 0.7 million tonnes with the recommencement of trade from what was formerly BHPB Billiton's Ravensthorpe Nickel mine by First Quantum Minerals (FQM). Additional trade generated from FQM includes imports of 90,000 tonnes of sulphur and 10,000 tonnes of magnesium oxide and exports in containers of 50,000 tonnes of mixed hydroxide participate. At this time the Port has not been able to negotiate a capital and operating recovery charge for the \$23.5 million spent to upgrade the mineral concentrate circuit, while other income sources are expected to remain constant.

Budgeted 2011/12 expenditure is forecast to increase by \$7.32 million on the previous year to \$51.94 million. The increase in expenditure results from increased maintenance, depreciation, wages, salaries and contract services expenditure. Other expenditure areas are anticipated to be in line with 2010/11.

As announced by the Government on 19 May 2011, Esperance Ports – Sea & Land will be enacting a series of savings initiatives designed to meet a 5% efficiency dividend for 2011-12 of \$1.34M.

An implementation plan detailing where exact savings will be made will be provided to the Minister and Treasurer by 30 June 2011. A progress report will then be provided by 10 October, with this information used for the Government's 2011-12 Mid Year Review (MYR).

The exact tax and dividend implications resulting for the above reductions in expenditure will be modelled between now and the October progress report.

ESPERANCE PORT AUTHORITY OPERATING BUDGET		
	ACTUAL 2010/11	BUDGET 2011/12
	\$ M	\$ M
Total Revenue	43.25	53.39
Total Expenditure	44.62	51.94
Operating Profit Before Tax / (Loss)	(1.37)	1.45
Income Tax Expense / (Credit)	(0.41)	0.44
Operating Profit After Tax / (Loss) 43.25	(0.96)	1.01

Budgeted trade is 11.327 million tonnes for 2010/11 and 12.025 million tonnes for 2011/12. The increase in trade results from increased exports of iron ore, spodumene and mixed hydroxide participate and increased imports of sulphur and magnesium oxide.

CAPITAL WORKS

Proposed capital works expenditure for 2011/12 is \$7.3 million. The Port has budgeted to spend \$2 million on road works and drainage, \$2.3 million on ventilating iron ore sheds and \$3.0 million on minor works and plant. The Port is budgeting to fund all expenditure from borrowings except minor works and plant.

PORT PRICING POLICY

The Port is proposing increases in wharfage, berthage, pilotage, garbage and mooring charges to achieve sustainable profitability for its various lines of business. Anticipated additional revenue generated will be \$0.64 million per annum.

DIVIDEND POLICY

The current dividend policy of 65 percent of after-tax profits will require the Port to pay a budgeted dividend of \$0.66 million. The payment of the dividend in each year will be according to the *Port Authorities Act 1999*.

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 Authority has put in place with the help of the Esperance Senior High School, an education program incorporating academic studies and how they apply to the workings of a Port. It is believed that this is a first for Western Australia and saw 200 year 9 and 10 Society and Environment students visit the Port during August 2008 to look at the working environment of a Port. This is an on-going commitment by the Port to the education of students in the practicalities on how academic studies apply to an operating Port.

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.

SECURITY

The main security elements used at the Port are:

- Advance information of cargo and personnel entering or exiting the Port
- Spatial monitoring and risk management
- Non-intrusive inspection of vehicles and personnel belongings, where appropriate, before they enter the Port
- Safety induction and accompanying of visitors by suitable Port personnel.

CORPORATE INVESTMENT STRATEGY

Funds surplus to the day-to-day requirements of the Port will continue to be invested in short-term deposits with the Port's bank where applicable.

ACCOUNTING POLICIES

The accounting policies of EPSL are consistent with Australian Accounting Standards. The Port Authority prepares financial statements compliant with Australian Accounting Standards Board (AASB) and the financial reporting provisions of the Port Authorities Act 1990.

TREASURY REPORTING COMPLIANCE

The Port complies with the reporting requirements of the *Port Authorities Act 1999* and other administrative requests from Treasury as required.

INFORMATION TO BE GIVEN TO MINISTER

The Port Authorities Act 1999, division 2 section 60 (2) (j) requires the Authority in the Statement of Corporate Intent to provide information to the Minister annually and half yearly.

Annual information requirements are:

- Copy of the Financial Statements, Balance Sheet, Profit and Loss Account and Cash Flow Statement;
- Directors' Statements as per schedule 5 division 8;
- Directors' Reports as per schedule 5 division 9;
- Copy of the Auditor General's Report;
- A copy of any order of the Treasurer under schedule 5, division 10, clause 33; and
- A report on the code of conduct.

Half yearly information requirements are:

- Copy of Financial Statements, Balance Sheet, Profit and Loss Account and Cash Flow Statement;
- Directors' Report on Operations;
- Directors' Declaration; and
- Authority's progress against planned achievements.

KEY PERFORMANCE INDICATORS

PERFORMANCE MEASURES	2011/12
Berth Utilisation	
Whole Port	41
Berth No.1 Occupancy	37
Berth No.2 Occupancy	49
Berth No.3 Occupancy	45
Expenditure per Tonne	4.34
Revenue per Tonne	4.44
Revenue per Employee (\$'000)	427
Expenditure per Employee (\$'000)	418
Revenue per Ship (\$'000)	222
Expenditure per Ship	218
Debt / Equity	2.79
Gearing Ratio	0.741

DEPARTMENT OF TRANSPORT
PERFORMANCE INDICATOR TARGETS

FINANCIAL YEAR	Ratio	2011/12
Rate of Return (for detail refer Appendix F)	ROR	3.3%
Revenue from Wharfage Charges / Total Tonnes	REPUT	\$3.79
Revenue from Vessel Charge / No. of Vessels	REPS	\$49,321
Total Expenditure / Total Tonnes	PACPUT	\$4.34
Total Tonnes / No. of Berths	CUB	4,008,333
Berth Occupancy as a Percentage of Time Available	SUB	41%