PORT OF TAURANGA ANNUAL MEETING 2019

1pm, Friday 25 October 2019

Chair – David Pilkington

I am pleased to present a summary of our performance for the year to June 2019. Port of Tauranga is, by an increasing margin, New Zealand's largest, fastest growing and most productive port.

Our annual cargo volumes increased 10.2% to 26.9 million tonnes.

Containerised cargo grew 4.3% to more than 1.2 million TEUs. Transhipments, where containerised cargo is transferred from one service to another, continued to show large increases, further evidence of our success in becoming New Zealand's major international hub port.

In the year to 30 June, container transhipment grew 11.2%. Transhipment now makes up 32.1% of the containers handled at Port of Tauranga.

Port of Tauranga handles 37% of all containers in New Zealand and 30% of total New Zealand cargo.

Group Net Profit After Tax passed the $100 million milestone for the first time, increasing 6.7% on last year's profit to reach $100.6 million.

Revenue increased 10.4% to $313.3 million. Parent EBITDA increased 12.4% to $168.6 million.

And as you'll be aware, ordinary dividends for the year totalled 13.3 cents per share, a 4.7% increase on the previous year. Total dividends increased 6.5% with the last of four special dividend payments of 5.0 cents per share. We have resolved to continue paying a special dividend, of 2.5 cents per share per annum, subject to any change in our capital expenditure plans.

We have capital spending of $310 million in the pipeline, in five stages aligned with ongoing future cargo growth.

For the Port of Tauranga Group as a whole, results were mixed across our Associate and Subsidiary Companies. Overall, profits decreased 27.5% after a very disappointing result from Coda Group, our 50/50 joint venture with Kotahi.

Coda Group's new Chief Executive, Gerard Morrison, has embarked on an extensive change programme to ensure its long-term success.

We completed a new warehouse for Coda Group at our MetroPort Christchurch inland freight hub at Rolleston, which Coda is using to handle Westland Milk's exports.

Our 100% subsidiary Quality Marshalling had an outstanding year, with profits increasing 15.1%.

Our South Island joint venture PrimePort Timaru had a good year too, increasing its contribution by 36.6%.

Timaru Container Terminal volumes decreased slightly, by about 10%. However, some of PrimePort's recent investments in building capacity have had immediate results for the terminal. Channel widening and a new tug have allowed the terminal to accommodate Maersk's Rio class vessels, currently the largest container vessels visiting the South Island. Maersk has also inceased its OC1/USA service from fortnightly to weekly and Swires have recently announced an additional Timaru weekly service linking through to Tauranga.

Northport cargo volumes remained steady compared with the previous financial year. We welcome the news that KiwiRail will invest in refurbishing the Auckland-Northland rail line so that there will hopefully be capacity in future to handle increased cargo volumes.

As you will no doubt be aware, a Government-appointed working group is looking at proposals to move Ports of Auckland volumes to Northport.

We welcome the final working group report and believe that both Northport and Port of Tauranga have a key role to play in alleviating the congestion pressure on Ports of Auckland.

The working group's latest report suggests the majority of Auckland's cargo be handled through Northport. To operate efficiently, this will require significant investment in road and rail connections to Northland.

At the end of the day, freight owners will continue to choose the most reliable and cost effective supply chain. The working group's challenge now is to come up with an acceptable action plan proposal to achieve this, given the huge investment required.

We have not yet had the opportunity to sit down and go through the detailed figures with the producers of the Ernst Young analysis. Some of the data the group has reported – around costs, future capacity and cargo forecasts – does not align with our own data. As mentioned at last year's annual meeting, we engaged Netherlands-based container terminal experts TBA Group to complete a capacity development review of our facilities. It showed we can accommodate up to around 2.8 million TEUs per annum on our current footprint, albeit with some further capital investment.

We have identified that berth capacity is the biggest current constraint to further growth, so we are planning to extend the container wharves to the south of the existing berths. This will create a fourth berth.

We will be taking delivery of our ninth container crane in January, heralding the start of the new programme of expansion.

All of our planned investments pass the test of our usual rigorous cost benefit analysis. We seek a return of at least 7.5% after tax on capital investments. Unfortunately, the same rigour can not be attributed to some of the spending decisions of our competitors.

A number of companies, and their owners, seem to ignore the Port Companies Act requirement to act as a successful commercial business.

Many ports continue to make uneconomic investment decisions. The Office of the Auditor-General has found considerable variation in port companies' approach to valuations and we support the Auditor-General in any moves that result in greater transparency in financial reporting across the sector.

We take climate change very seriously as a business and our Chief Executive will give you a progress update on the initiatives we have underway.

As well as reducing our carbon emissions, our environmental focus has been on air and stormwater quality. We have invested heavily in the past few years in improving both.

Following the changes to NZX guidelines, we have decided to discontinue our interim financial reports in their current format. We will, however, be giving you all a thorough half-year update, which will be distributed via email and available online.

Before I hand over to Mark, I must highlight his win of a very prestigious award during the year. Mark received the Caldwell Partners Leadership Award at the 2019 Institute of Finance Professionals Awards. These awards recognise innovation and excellence in the financial and capital markets sector.

The judges rightly pointed out Port of Tauranga's excellent productivity rates, industry-leading safety record, increasing cargo volumes and shareholder returns that have compounded by an average 20.4% since Mark took the Company helm in 2005.

Another instrumental figure in that success has been Steve Gray, our Chief Financial Officer. Sadly, Steve has announced his retirement from June next year.

Steve has served as CFO for the past 12 years and been with the Company for 32 years.

Steve led the team that negotiated our long-term freight agreement with Kotahi that enabled Port of Tauranga to become big ship capable.

We will be very sad to see him go but we are hopeful we will retain his services through his governance roles with our Associate Companies.

It is inevitable that Mark too will eventually wish to retire, although we hope to put this off as long as possible. In preparation, the Board, together with Mark, has put a strong emphasis on succession planning and building our bench strength, and we have moved our Commercial Manager Leonard Sampson into the new role of Chief Operating Officer.

This will give Leonard exposure to all parts of the business, while he supports Mark in his role.

We have commenced the search for a replacement for Leonard as Commercial Manager, and Steve as CFO, and we will make appointment announcements in due course.

We are also very pleased to have Simon Kebbell join the Senior Management Team, adding Company Secretary responsibilities to his IT / Finance Manager role.

Finally I would like to express my appreciation to my fellow directors, Mark and the Senior Management Team, our staff and many contractors for the commitment and dedication to your great company.

I'll ask Mark to now share some of the operational highlights for the year as well as the outlook for the 2020 financial year and beyond.