

PORT OF TAURANGA ANNUAL MEETING 2019

1pm, Friday 25 October 2019

Chief Executive – Mark Cairns

Thank you David. Kia ora tatou. Good afternoon Ladies and Gentlemen, thank you for your attendance this afternoon. I am Mark Cairns, honoured to serve as your Chief Executive of Port of Tauranga - New Zealand's largest, fastest growing, and most productive port.

As David outlined, we had another successful year with exports increasing 11.2% to 17.1 million tonnes and imports increasing 8.4% to 9.8 million tonnes for the year ended June.

Log exports increased 12.5% to 7.1 million tonnes. This trend is not expected to continue in the short term and I will elaborate further on this shortly.

Sawn timber exports increased 5.4% in volume. Overall, forestry-related exports increased 10% in volume.

Dairy product exports remained steady at just over 2.3 million tonnes. Imports of stock feed supplements decreased 11.8% in volume, and fertiliser imports decreased 9.2%.

Kiwifruit exports increased 15.2% during the period, a trend that is expected to continue for the next few years.

Other primary produce sectors also performed strongly, with frozen meat exports increasing 18.8% in volume and apple exports increasing 54.3%.

In the construction sector, cement exports decreased 17.1% and steel exports decreased 7.7%. Salt imports increased 26.8% in volume.

Oil product imports increased by just under 2% and dry chemical imports increased by almost 9%.

We also had a bumper cruise ship season, with 116 passenger vessels, up from 83 in the previous year. Around 227,000 passengers and 89,000 crew visited the port and expenditure into the regional economy was estimated at \$90.3 million. We have 112 cruise ships booked to visit this coming season.

A key component of our hub port strategy is the long-term freight agreements negotiated with our key customers, to ensure we have the freight volume to justify the big ship services calling in Tauranga. Our relationships with cargo owners such as Oji Fibre Solutions, Kotahi Logistics and Zespri give us that assurance. I am pleased to report that we successfully renegotiated our second decade long partnership agreement with Oji in December.

We also work both formally and informally with the three iwi with mana whenua status in Tauranga Moana. Through the two different schemes we administer, we awarded scholarships to 18 tertiary students with ties to the Bay of Plenty in the last year.

We will continue to invest in the projects, organisations and events with long-term benefits for our community – such as the Pilot Bay boardwalk, the upkeep of the walking tracks on Mauao and the floodlighting at Bay Oval.

I'm very pleased to report that we were able to contribute dividends of \$66.3 million to our main shareholder, Quayside Holdings, which is Bay of Plenty Regional Council's investment arm. Since the company listed in 1992, Quayside has received a total of more than \$800 million in dividends from its shareholding.

This is on top of the \$200 million Regional Infrastructure Fund that the Regional Council has established via its shareholding, to help fund major capital investments throughout the wider region, including the marine precinct and tertiary education campus here in Tauranga.

We continue to make progress towards our health and safety goals. Last year we achieved a 55% reduction in Total Recordable Injury Frequency Rate, and a 17% reduction in Injury Severity. We had one lost-time injury during the year, involving blistered feet, and we consider that is still one too many.

We've had a very positive response to the introduction of our ShipShape staff wellbeing programme a year ago and it has proven to be a great platform for promoting teamwork amongst staff.

We are developing a comprehensive training and development framework to ensure that all of our employees have a personalised plan to improve and expand their skills. Most of our people managers have recently had training on mental health issues, domestic violence, discrimination, bullying, harassment and inclusivity.

I am immensely proud of our Port People, who provide the Company with our greatest source of competitive advantage. Our people work around the clock, in all weathers, and thrive on the challenges presented to them. They embrace our culture of continually striving to do things better and demonstrating an enduring “can-do” attitude, contributing to our reputation as an innovative organisation that puts customer needs at the heart of everything we do.

The Ministry of Transport monitors the productivity of New Zealand’s six container ports. In 2018, we handled 44.3% more containers than the next largest port.

Our productivity rates took a bit of a hit during the peak season as we had to accommodate unscheduled ship visits due to diversions from Ports of Auckland.

However, our rates remain market-leading in Australasia. Our average crane rate over the year was 33.6 moves per hour. We remained the most efficient port measured by ship rate, with an average of 84.3 moves per hour in 2018, 17% ahead of the national average of 72.3 moves per hour. We were 54% more productive than the average of the top five Australian container ports, whose average ship rate was 54.9 moves per hour.

We occupy a very special piece of real estate and it is important to us that we are never seen to take our licence to operate for granted. I would like to pause here and show you a short video that embodies our desire to effect a step change in our environmental, social, and corporate governance performance.

Measuring, understanding and reducing our carbon emissions has been a big focus in the past couple of years. We have gained certification of our carbon emissions through the Certified Measurement and Reduction Scheme, or CEMARS.

We have set an initial short-term goal of a 5% reduction in Scope 1 carbon emissions per cargo tonne. Scope 1 emissions are those most directly caused and influenced by our business activities, and primarily come from burning diesel in our straddle carriers, and to a lesser extent, in our marine fleet and other vehicles.

We are targeting net-zero emissions by 2050 and we are working on multiple fronts to achieve this.

One is the establishment of an “inset” fund, where we invest the money we would spend on external carbon offsets on sustainability initiatives within our business. This year, this fund sits at just under \$1 million, which we are using to subsidise the purchase of more expensive battery-hybrid straddle carriers.

Our next stage of expansion will allow us to utilise fully-electric automated stacking cranes, avoiding increased diesel consumption from the increase in cargo handled.

We are also replacing light vehicles with electric or hybrid models where we can, and using biodiesel where we can't.

It's a bit of a balancing act. We have increased our wharf sweeping to prevent any dust or debris being washed into the harbour when it rains heavily. But this has increased our carbon emissions from waste going to landfill.

A large proportion of bark from the log wharves is already recycled into compost, and we are looking at ways where we can recycle more waste.

We favour rail transport over road because of the lower emissions, and we are promoting greater use of coastal shipping where feasible. Because we can use rail and coastal shipping to consolidate cargo at Tauranga, and because of the efficiency of the larger vessels that tend to call here, we can offer the lowest emission supply chain to our customers.

In terms of air and water quality, we are very pleased to have secured resource consent for our stormwater network at Mount Maunganui. We have also made significant progress in dust suppression, which I alluded to earlier, with increased sweeping and updated bulk cargo handling rules.

We fully support moves to low sulphur fuel use by ships, which will go a long way to reducing air pollution from shipping. We are working with a couple of suppliers to ensure the necessary fuel bunkering facilities are available for visiting vessels.

We are also supporting moves to phase out or completely recapture methyl bromide for log fumigation. We have introduced financial incentives for bark removal on export logs prior to their arrival at the port. This minimises the amount of fumigation required and can even remove the need altogether. One of our largest customers, Kaingaroa Timberlands, is reporting great results from its new de-barking plant at its rail exchange at Murupara.

We are trying to achieve environmental leadership visibility across all of our staff and I was delighted to receive this letter from Kaingaroa Timberlands welcoming our increased environmental focus.

However, the fact remains that many of our export markets insist upon the use of methyl bromide to address biosecurity risk. And even our own Ministry for Primary Industries requires methyl bromide treatment of many imports to repel pests such as the brown marmorated stink bug.

Keeping this pest out of New Zealand is a big focus of our biosecurity excellence partnership with MPI, Kiwifruit Vine Health and other agencies, which aims to build awareness among the wider port community.

Meanwhile, we have capital spending of \$310 million in the pipeline, in five stages aligned with cargo growth.

We have progressed our plans to extend the container wharves to the south using existing port land. We hope to lodge a resource consent application in the next few months.

Our ninth container crane and associated straddle carriers are on their way, including three new hybrid straddles that will give us fuel savings of 30 to 40% compared with the diesel-electric models we run currently.

As David mentioned, we believe we can increase container throughput to 2.8 million TEUs in future within our existing footprint. Most of this growth will be transported by rail, which provides the lowest carbon supply chain and the least impact on the community.

Our new vehicle booking system is improving traffic flows into the terminal by incentivising truck visits outside peak hours. This helps us speed up cargo delivery and pick up within the port gates, as well as avoiding adding trucks to the peak hour traffic on roads surrounding the port.

Over the past five years, the compound annual growth rate in truck volumes to and from the port was 3.2%. We have renewed our call for state highway designation for Totara Street, which would help support upgrades to this important arterial route. It is considered unacceptable that we do not have a State Highway connection to the main gate on our Mount

Maunganui wharves. The Mount Maunganui wharves by themselves are the second largest port in New Zealand, with Sulphur Point being the largest in terms of tonnes of cargo handled.

As mentioned by David, we will be farewelling our hugely valued CFO in eight months' time after an awe-inspiring 32 years with the Company. I am pleased to report that Steve won't be leaving us altogether, and will be a feature on the Boards of our Subsidiaries and Associates and – I hope – continue lending me his ear from time to time.

I personally have relied heavily on Steve's sound judgement and am grateful for his wisdom as well as his good humour. In 2017, I was proud that his immense strategic skills, as well as his financial qualities, were appropriately recognised in the Deloitte Top 200 Business Awards, when he was named CFO of the Year – a most worthy recipient and a popular choice for the market, which has long-respected his abilities.

Looking now to the future and our prospects over the coming year: we continue to focus on maintaining diversity in our cargo and customer mix to give us some resilience amidst the usual fluctuations in trade conditions and commodity cycles.

There are some large-scale developments happening in the Bay of Plenty and neighbouring regions. The Ruakura hub development by Tainui Group Holdings in Hamilton will get under way in the next few years, and we have formed a thirty year and potentially 50 year partnership with Tainui to help that get moving. There are also some significant production facilities in the pipeline in the eastern Bay of Plenty, as well as some potential new factories in the Tauranga area. While the availability of greenfields sites in the Tauranga city limits is starting to get squeezed, there is still plenty of land available at places such as Rangiorua, near Te Puke, where Quayside intends to develop a business park.

Despite the potential developments locally, the global political and economic environment is expected to provide some short term headwinds. Current global influences include increased trade protectionism, uncertainty with the ongoing Brexit process, and geopolitical tension involving the Middle East, Russia and North Korea, not to mention the impact of the on-going trade tensions between the United States and China.

There are signs that we will see a softening of growth in some cargo categories in the coming year. Log prices dropped sharply a few months ago from their historic highs, and we have seen volumes become a bit patchier in recent times. Overall, the guidance we are getting from

our larger customers is that log volumes are likely to drop back to about the same volumes we saw in the 2018 financial year.

The first quarter saw cargo volumes slightly less than the prior corresponding quarter and consequently at this stage, our guidance for full-year earnings is in the region of \$96 to \$101 million, the same guidance we gave at last year's Annual Meeting for this year's record result.

We are taking a hard look at all our costs to ensure we are in the best shape possible and our recent credit upgrade to A- will help with our financing costs over the coming year. We believe we are well placed to weather any coming economic storm, and will continue to invest.

It just remains for me to thank our customers and partners. We've had the opportunity to celebrate a few milestones with them over the past 12 months and we look forward to acknowledging many more into the future.

We remain confident in the long term outlook and will continue to strive for success as New Zealand's Port for the Future, delivering benefits to all our stakeholders, both here in the Bay of Plenty and well beyond. Thirty-six % of New Zealand's exports passing across our quays. Tens of thousands of New Zealanders rely on us for direct and indirect employment, with Port of Tauranga impacting 43% of the region's GDP.

As I finish, I would like to leave you with a video showing the planned developments in our container terminal over the next few years.

Nga mihi nui kia koutou katoa. Thank you for your attendance Ladies and Gentlemen.