

THE YEAR IN REVIEW:

Chair and Chief Executive's Report to Shareholders

Our people and our service providers have done an incredible job in the face of many challenges.

> The year in review has been extremely challenging as the world continues to grapple with the effects of the Covid-19 pandemic.

The pandemic has caused well-documented and widespread disruption to the international supply chain, through erratic consumer demand, interrupted production cycles and scarce shipping availability. In addition, closer to home, we have felt the consequences of congestion as a result of Ports of Auckland's operational problems.

We wish to acknowledge the incredible efforts of our people and our service providers in dealing with the range of challenges we've faced.

Our Subsidiary and Associate Companies have had a stellar year, delivering a strong financial result in spite of increased costs and an uncertain outlook.

Bulk cargoes, especially log exports, have bounced back strongly following the 2020 Level 4 lockdown.

Temporary surcharges for long-stay containers, introduced in January to discourage inefficient cargo flows and

relieve yard congestion, helped cover some additional costs from the congestion.

We took advantage of the low interest rates on offer and issued a \$100 million five year wholesale bond at a coupon rate of 1.02%.

We have preserved liquidity through astute debt management, and our balance sheet remains strong.

Financial results for the year ended 30 June 2021

Group Net Profit After Tax increased to \$102.4 million, up 15.4% from an adjusted \$88.7 million last year.

Parent revenue increased 8.9% to \$323.5 million. Marine revenue decreased due to a 13.7% drop in ship visits, including cruise ships. However, there was increased revenue from log and container storage, as well as Subsidiary and Associate Company income.

Labour, rail and other congestion-related costs grew significantly, with operating expenses increasing 15.3% to \$161.1 million.





> Leonard Sampson
Chief Executive

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Mark Cairns

> At the end of June we farewelled our retiring Chief Executive of 16 years, Mark Cairns.

Port of Tauranga's Board of Directors has declared a fully imputed interim final dividend of 7.5 cents per share to bring the total dividend to 13.5 cents per share, compared with 12.4 cents per share in the 2020 financial year.

Farewell to Mark Cairns

At the end of June we said farewell to our retiring Chief Executive of 16 years, Mark Cairns.

Mark built up a strong team and the Board was delighted to be able to appoint an internal successor in Leonard, who has been with Port of Tauranga for nearly eight years. The Company will continue to benefit from his deep commercial knowledge, wide logistics sector experience and relationship-building abilities.

Safety the top priority

The health and safety of our people continues to be our number one priority and is the issue of most importance for our stakeholders. Our message has been

that safety should not be sacrificed in the pursuit of speed or productivity, and we will continue to put safety first, always.

Congestion and delays for supply chain

Covid-19 and ongoing operational problems at Ports of Auckland contributed to the past year being one of the most volatile the Port has ever experienced in terms of cargo volumes.

The widespread disruption in the international supply chain caused shipping delays, cancellations and scarcity of supply.

We saw 208 fewer ships during the year, with container vessel visits between September 2020 and June 2021 dropping by 106 vessels compared with the previous period. However, the average cargo exchange per container vessel increased 21.7%, reflecting strong demand for capacity and the reduced vessel frequency. The average cargo tonnes per ship increased from 16,375 to 19,693.

Near-record spikes in container numbers in the months of October and December, compounded by constrained rail capacity, caused significant congestion. Overall container throughput for the year was 1.2 million TEUs, 4.1% less than the previous year.

The surges in demand put extreme pressure on our container storage capacity in both Auckland and Tauranga, and the rail capacity between. It had a severe impact on our efficiency and productivity. With the container yard operating at more than 100% capacity at times, the average net crane rate (container moves per hour) dropped to 29.7 for the year, down from 35.8 in 2020. Late arriving vessels were slow to pick up exports, adding to the congestion.

In January we introduced temporary surcharges for shippers rolling cargo or leaving their containers on the wharf for excessive time, which helped to ease avoidable congestion.

Relief in the form of additional trains from KiwiRail finally arrived in May, when we were able to increase our train programme from 72 trains to up to 90 trains per week.

Labour shortages start to bite

Vessels are still arriving “off window”. We are processing container vessels as they arrive and hoping to gradually introduce more schedule reliability as shipping companies can give us more certainty.

In recent months, we have witnessed a worsening labour shortage that could potentially have an impact on operations.

The lack of workers is widespread, affecting many industries, and we are competing for people against, in some cases, our own customers. We are working with other port employers to make jobs as attractive as possible.

Growing capacity to ease congestion

Congestion is also unlikely to be resolved permanently until Ports of Auckland is

back operating at full capacity, and/or we are able to extend our terminal berth and container handling capacity at Tauranga.

We have applied for resource consent to extend our container berths to the south of the existing wharves, where we currently have available cargo storage land.

The \$68.5 million project will create an estimated 368 jobs through the construction phase, and more than 81 permanent jobs after completion. Port of Tauranga believes this project is of national significance in that it will bring urgently needed capacity and resilience to New Zealand's supply chain. It is extremely frustrating that the process for gaining a consent takes so long, for what is a critical expansion to much-needed capacity.

No Government funding is required for the project. Last year we applied for consideration under the Government's “shovel ready” and “fast track” consenting programmes introduced to help the country recover from the pandemic.

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Our capacity will be further extended with the opening of the Ruakura Superhub inland port in Hamilton in mid-2022.

However, Government Ministers have instead recommended direct referral to the Environment Court to expedite the resource consent process and we are pursuing this option. Even under this process, it is unlikely we will get a court hearing until well into 2022.

In the meantime, we are also pursuing our plans to automate container storage at the terminal to increase our capacity within the current land footprint. Our automation project will utilise well-proven technology already in use in many of the world's most efficient ports.

You can read more about these projects on page 56.

Ruakura offers efficient option for Waikato importers and exporters

Our capacity will be further extended with the opening of the Ruakura Superhub inland port in Hamilton in mid-2022. The rail-connected hub is being developed in a 50/50 partnership between Port of Tauranga and Tainui Group Holdings.

You can read more about this initiative on page 32.

Frontline workers subject to Covid-19 precautions

New Zealand's evolving response to the Covid-19 pandemic has had a significant impact on Port of Tauranga operations.

In August, a Covid-19 outbreak in Auckland prompted the Government to order testing for all workers and visitors at Ports of Auckland and Port of Tauranga. At Tauranga, the order affected up to 6,000 people. Thankfully, health officials saw sense and quickly modified the order to apply to only those most at-risk workers. Frontline workers remain subject to mandatory testing at either seven-day or 14-day intervals, depending on the role. There are testing facilities on site and Port of Tauranga monitors compliance with the testing regime for its employees. Currently around 50 people out of our 243 employees are subject to the testing requirement, along with more than 500 other people port-wide.

With changes to legislation effective 14 July, this group of port workers is also now required to be vaccinated, with at least the first dose administered by 30 September. Almost all of Port of Tauranga's eligible employees have been vaccinated since vaccines became available in March, and we are working through options with a handful who are refusing or unable to be vaccinated.

Port of Tauranga has always strongly encouraged all port workers to get vaccinated. We have provided them with extensive health information, hosted question and answer sessions with local health experts, and offered vaccinations on site, with time off to get them if required.

Vaccination is a useful tool in the battle to keep our people, their families and the community safe from Covid-19, but we will continue to rely on the other measures we have been employing for more than a year. They include frequent deep cleaning, physical distancing



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from ship's crew, the use of personal protective equipment (PPE) and regular Covid-19 testing.

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Cargo trends in 2021

Total trade increased 3.8% compared with the previous year, growing to 25.7 million tonnes, although container numbers were 4.1% fewer at 1.2 million TEUs.

Imports increased 4.0% to 9.4 million tonnes, and exports increased 3.6% to 16.3 million tonnes.

Log export volumes bounced back from the 2020 lockdown, increasing 14.3% to 6.3 million tonnes. Sawn timber and wood panel exports decreased 12.4% in volume.

Dairy product exports decreased 1.9% to just over 2.3 million tonnes, reflecting a later-than-usual season and a reduction in tranship volumes.

Kiwifruit exports increased 10.1% in volume.

Oil product imports increased 11.6% in volume, and cement imports increased 42.4% in volume, reflecting the strength in the local economy.

Fertiliser imports decreased 16.9% in volume, grain volumes decreased 8.9% and protein and stock feed imports decreased 10.4%.

Coal imports increased significantly as a result of lower hydro energy production and declining gas production.

Improving air and water quality

Efforts continue to improve air and water quality in and around the port.

In recognition of growing concerns, Port of Tauranga has decided to insist that all methyl bromide fumigations of export log stacks utilise recapture technology. This is over and above any regional or national requirements. We expect methyl bromide use at the Port to continue to decrease, with news of a second log de-barker to be commissioned by forestry exporters next year. De-barking logs off site greatly reduces the amount of pre-shipment fumigation required, and avoids log debris being deposited on the wharves during handling, threatening water and air quality. More detail on this issue can be found on page 47 of this report.



We are also investigating options for stormwater treatment at the Mount Maunganui wharves. While Port of Tauranga complies with all of the conditions of its stormwater resource consents on both sides of the harbour, we continue to explore ways to further improve water quality.

Carbon emissions affected by congestion

Our decarbonisation programme was thwarted by container yard congestion, with diesel use increasing by nearly a third due to straddle carriers having to shift containers around and travel further within the terminal. Electricity use also increased due to refrigerated containers staying longer than usual at the terminal.

We managed to further reduce the amount of waste going to landfill from the Mount wharves, with volumes halving again due to increased recycling and reuse of waste products.

Overall carbon emissions (Scope 1, 2 and 3) increased 7.0% to 43,464 tonnes. The increase also reflects the inclusion of emissions relating to Timaru Container Terminal, which became a 100% owned subsidiary of Port of Tauranga Limited in November 2020.

Carbon emission intensity (emissions per cargo tonne) stayed reasonably steady, increasing 1.2% from 1.63 to 1.65 kg CO₂e per cargo tonne.

Our opportunity for further emissions reduction in future lies in automation.

Electric stacking cranes have much fewer emissions than an equivalent manual straddle operation.

Upper North Island Supply Chain Review

In late 2019, the Upper North Island Supply Chain Strategy Independent Working Group, appointed by the last Government, recommended that Ports of Auckland be moved to Northport. A subsequent review, by economic consultants Sapere, released in July 2020 suggested Manukau Harbour was the best location.

The Ministry of Transport is undertaking further policy analysis on the options and the Minister of Transport, Michael Woods, has indicated a strategic decision will be

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made by the next election in 2023 and that it will be part of a broader national freight strategy. We have stressed to policy makers the need for pragmatic, fact-based analysis and solutions, rather than the politically-motivated, interest-driven reports that have been undertaken previously.

Outlook

The outlook for the next financial year remains uncertain. The Port of Tauranga team is confident that it has resolved land-side congestion issues for now. However, the disruption to the international supply chain remains and the problems in Auckland are unlikely to be resolved in the near term.

Covid-19 precautions will continue to impact efficiency and costs as we continue to prioritise the health and safety of our team members, their whanau and the community.

We are confident that we are well-positioned to tackle the looming challenges. We will provide earnings

guidance for the 2022 financial year at our Annual Shareholders' Meeting on 29 October 2021.

Thank you

Thank you to our customers for their extraordinary patience over the past year. Thank you also to our service providers and business partners, who have worked tirelessly to overcome the many challenges. And we are eternally grateful to the many dedicated individuals, employed by Port of Tauranga and others, keeping New Zealand's cargo moving.

Ngā mihi nui



Leonard Sampson
Chief Executive



David Pilkington
Chair



> David Pilkington
Chair