



Mark Cairns
Chief Executive

David Pilkington
Chair

BUILDING ON SUCCESS

Chair and Chief Executive's
Report to Shareholders

We are pleased to present our annual report on the activities, performance and outlook for New Zealand's largest, fastest growing and most productive port.

Port of Tauranga had another excellent year, handling nearly 24.5 million tonnes of cargo, including almost 1.2 million TEUs¹, and producing a record Group Net Profit After Tax of \$94.3 million.

Our expansion programme to accommodate larger vessels, coupled with New Zealand's buoyant economy, has resulted in the 10.2% increase in cargo volumes. Revenue increased 10.9% to \$283.7 million.

Transshipment, where containers are transferred from one service to another at Tauranga, has grown 23.3% in the past year, demonstrating the success of the hub and feeder port model in New Zealand.

International hub port

The growth in transshipment is a direct result of Port of Tauranga's six year investment in building capacity to become big ship capable, completed in 2016.

With fast connections between Tauranga and North Asia, North America and South America, Australian and New Zealand shippers have increasingly been using Tauranga as a hub port. Containers transhipped from other New Zealand ports increased 54.7% compared with the previous year.

Overall, transhipped containers now make up 25.7% of total TEU.

¹TEU =Twenty Foot Equivalent Units



It is not just larger container ships that are calling. The mega cruise ship *Ovation of the Seas*, at 347 metres long and carrying 4,900 passengers supported by 1,500 crew members, visited three times last summer and will call seven times in the coming season. We also had an overnight visit from the trans-Atlantic ocean liner *Queen Mary 2*, one of the largest and most luxurious cruise ships to ever visit Tauranga.

Trade trends

Imports increased 13.7% to 9 million tonnes and exports increased 8.2% to 15.4 million tonnes for the year ended 30 June 2018.

Log exports increased 14.3% to 6.3 million tonnes. Sawn timber exports also increased 10.3% in volume. Forestry products are still fetching record prices internationally.

Dairy product exports increased 4.0% overall to 2.3 million tonnes. Imports of dairy industry food supplements increased 18.2%, and fertiliser imports increased 16.5%, reflecting a strong agricultural sector.

Other primary produce sectors also fared well, with frozen meat exports increasing 11.3%, and apples increasing 20.9%.

Cement imports increased 18.9%, while steel exports increased 25%.

Oil product imports increased 9.3% and other bulk liquids increased 39.9%.

The volume of cars and other vehicles imported at Port of Tauranga doubled compared with the previous year.

Whilst kiwifruit volumes were down 5.8%, an increasing proportion is being shipped via refrigerated container. The number of TEUs increased 27.6% compared with the previous year.

Health, safety and the environment

We are proud of the safety culture that is developing in our business. This year we initiated a project to extend and improve the health aspect of our health and safety programme.

With guidance from Toi Te Ora Public Health, we launched Ship Shape, a wellbeing programme for all Port of Tauranga employees. The programme incorporates the Company's existing benefits – such as annual medical checkups, free flu vaccinations and health insurance – and will develop new initiatives based on staff feedback and priorities.

We want to be as successful in our environmental performance as we have been in our safety outcomes. We have undertaken a comprehensive, independent carbon emissions audit which will help us measure future improvements.

We have expanded our internal capability with the recruitment of an Environmental Manager and we are making use of technology to reduce carbon emissions, improve energy efficiency and keep the harbour and our city clean.

Stormwater management is a current priority. We have increased sweeping of the log yards and installed stormwater screening chambers to ensure dust and debris is prevented from entering the harbour. We are also stepping up our efforts to improve air quality and reduce energy use.

We continue to support forestry industry efforts to reduce the amount of methyl bromide used in fumigation at the port. We are encouraging exporters to de-bark logs prior to arrival at the wharves.

Operational highlights

We established an eight crane fleet at the Tauranga Container Terminal last year and we have ordered a ninth crane which will be delivered in 2020.

We continue to increase container terminal capacity by relocating and reorganising buildings and activities where it is efficient to do so. Last year's relocation of Oji Fibre Solutions to a new purpose-built shed freed up space for an additional 820 container ground slots right next to the berths.

We now have a total of 2,634 refrigerated container connection points, which are supplemented in the peak season with 12 generators, each supplying power to 35 containers. This is believed to be the largest reefer capacity in Australasia.

Associate and Subsidiary Companies

Quality Marshalling continues to diversify its business in niche cargo handling and container services. Quality Marshalling has secured the contracts to operate the Tauranga Container Terminal's straddle carrier maintenance workshop as well as refrigerated container monitoring.

We are building a new warehouse for Coda Group at our MetroPort Christchurch inland freight hub. Coda will lease the facilities for container packing and distribution. The new

premises comprise a 19,000m² warehouse, a 2,200m² canopy and 210m² office.

MetroPort Christchurch is linked by rail to the Timaru Container Terminal and the rest of the South Island.

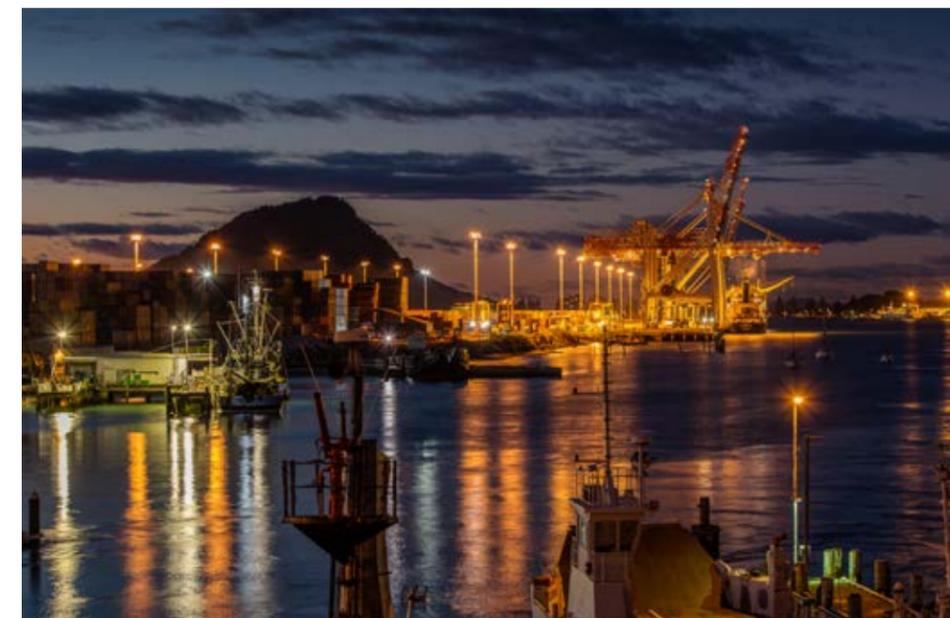
The container terminal's landlord is PrimePort Timaru, in which Port of Tauranga has a 50% shareholding. The terminal had another record year with volumes up 5% on the prior year.

PrimePort Timaru has been buoyed by news of a major new bulk fuel terminal to be built at the port. The new facility will join a major cement handling facility opened by Holcim in early 2016.

Log exports continue to grow through PrimePort, increasing 19% from the previous year.

Meanwhile, Northport has seen an increase in container traffic following the introduction of the first scheduled container service in 2017, and forest product exports continue to set new volume records.

We are making use of technology to reduce carbon emissions, improve energy efficiency and keep the harbour and our city clean.



We expect cargo growth to continue in the next year across most categories and particularly in containerised cargo.

Governance

Alison Andrew was appointed to the Board of Directors in April 2018 following Bill Baylis' retirement after 11 years. Alison is currently Chief Executive of Transpower, has held senior executive roles across various industry sectors and has been a Director of Genesis Energy.

Our majority shareholder, Quayside Holdings, has appointed Director Rob McLeod to the Board following the retirement of Michael Smith after 16 years. In addition to Quayside Holdings, Rob is currently on the Board of the Sanford Group and is a former Oceania CEO of Ernst & Young and Chair of Ernst & Young New Zealand.

Alison Andrew and Rob McLeod will be seeking election at the 2018 Annual Meeting.

At the Annual Meeting, Directors Julia Hoare and Doug Leeder will retire by rotation and seek re-election. Both have the unanimous support of the Board.

External operating environment

In February 2018, the new Government announced an Upper North Island Supply Chain Review. A working group will review the current supply chain, advise on priorities for transport investment and explore options for moving the location of Ports of Auckland. As a key stakeholder in this review, Port of Tauranga expects to be consulted by the working group.

Port of Tauranga is proud of our industrial relations record and our relationships with staff and unions. However, we have concerns about aspects of the Government's

significant changes to the industrial relations framework. Port of Tauranga has made a submission opposing certain aspects of the Employment Relations Amendment Bill. Specifically, we are concerned with the repeal of the ability for employers to opt out of Multi Employer Collective Agreement (MECA) negotiations. This breaches the voluntary nature of collective bargaining required under the International Labour Organisation's Right to Organise and Collectively Bargain Convention that New Zealand has ratified. We believe the Bill will undermine New Zealand's competitiveness through increased costs, decreased productivity and increased business complexity.

Sector performance

The Office of the Auditor-General has recently raised a number of issues identified in its audit of the New Zealand port sector². It found considerable variation in port companies' approach to valuations, making it difficult to see whether capital expenditure was a good use of shareholders' funds.

We support the Office's advice to port companies to use fair value, based on the expected cash flows to be generated. This is the process we adopt for the justification of major capital investments.

In Port of Tauranga's case, we seek a minimum return of 8.5% after tax.

Outlook

Port of Tauranga operates in a complex environment with many factors outside its immediate control. However, we believe we have implemented the policies, processes and practices required to deliver excellence in service to our customers, economic benefit to our communities and strong returns to our shareholders.

We expect cargo growth to continue in the next year across most categories and particularly in containerised cargo. We will invest appropriately in the infrastructure required to manage these volumes and remain confident that our current footprint allows for significant expansion without the need for expensive reclamation.

Recognition

We were very proud to see our long-serving Chief Financial Officer (CFO), Steve Gray, recognised as CFO of the Year in the 2017 Deloitte Top 200 Business Awards. Steve's sound judgement and steady hand have helped steer Port of Tauranga on its successful journey.

We would like to acknowledge and thank our loyal staff and contractors, whose dedication, innovation and enthusiasm make Port of Tauranga the company it is today.

In recognition of our employees' outstanding contribution to the success of the business, we are pleased to announce an enhanced share ownership scheme for permanent staff.

Individuals will be able to obtain up to \$5,000 worth of shares at a 30% discount, utilising interest-free loans over three years. More than 90% of our staff are already shareholders, so we expect this will be welcome news to the team.

Finally, we thank our customers, service providers, business partners and friends in the community for their ongoing support in making Port of Tauranga New Zealand's Port for the Future.

David Pilkington
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 Chair

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 Chief Executive



²<https://oag.govt.nz/2018/port-companies-audits>