



Chair and Chief Executive's report to shareholders

Our year in review



David Pilkington
Chair

Mark Cairns
Chief Executive

“

In the year to 30 June 2019, container transshipment grew 11.2%. Transshipment now makes up 32.1% of the containers handled at Tauranga.



We are pleased to present our annual review of performance of Port of Tauranga Limited for the year to 30 June 2019.

Port of Tauranga has had another good year. We handled more than 26.9 million tonnes of cargo, an increase of 10.2% in volume. Containerised cargo grew 4.3% in volume, to more than 1.2 million TEUs.

Group Net Profit After Tax passed the \$100 million milestone for the first time, increasing 6.7% on last year's profit of \$94.3 million to reach \$100.6 million.

Hub port strategy

We continue to see big increases in transshipment as evidence of our success in becoming New Zealand's major international hub port.

Transshipment, where containers are transferred from one service to another, has been growing significantly since 2016, with the completion of Port of Tauranga's \$350 million investment in building capacity to become big ship capable.

Having the necessary infrastructure is one thing, but it is also vital to have the long-term relationships in place to ensure we have the freight volume to justify the big ship services. Our relationships with key cargo owners such as Oji Fibre Solutions, Kotahi Logistics and Zespri International give us that assurance.

New Zealand shippers can now access fast, big ship services that call only in Tauranga by utilising the sea links between Tauranga and Timaru, Napier, Nelson or Wellington.

In the year to 30 June 2019, container transshipment grew 11.2%. Transshipment now makes up 32.1% of the containers handled at Tauranga.

The number of containers transferred by rail to and from our inland freight hub, MetroPort Auckland, increased 4.3%. MetroPort Auckland now stands alone as the country's fourth largest container terminal by volume.

We recently announced a partnership with Tainui Group Holdings to support the development of the Ruakura Inland Port in Hamilton, which is approximately midway between Tauranga and MetroPort Auckland.

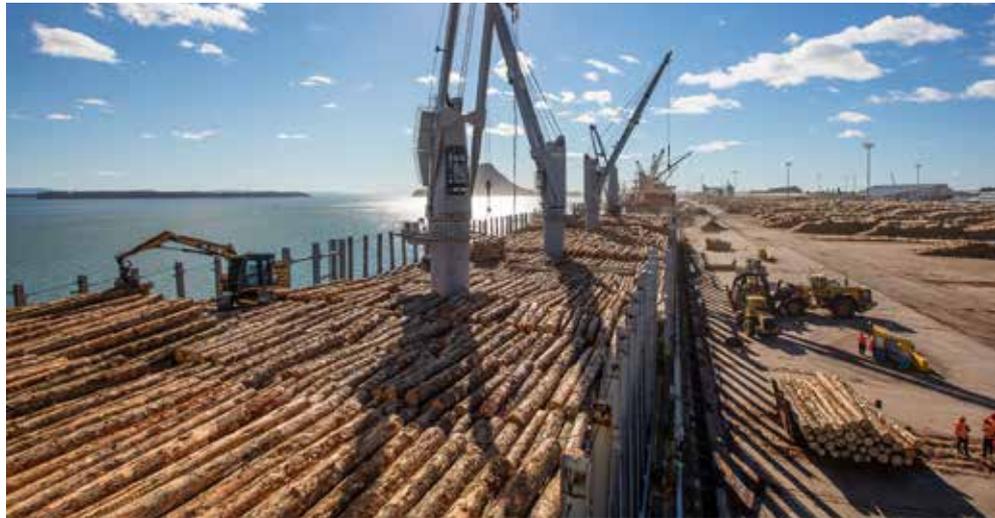
Our other inland freight hub, MetroPort Christchurch, is now home to a purpose-built warehouse for our Associate Company Coda Group. The facility allows Coda Group to handle Westland Milk dairy exports.

Meanwhile, in response to customer demand, we are pursuing plans to add another container vessel berth by extending up to 385 metres to the south of the existing Sulphur Point wharves.

Our ninth container crane will be delivered in January 2020.

“

The average size of vessels continues to increase. The average gross tonnage of container ships visiting Tauranga has increased 25.2% between 2016 and 2019.



Oji Fibre Solutions agreement extended

Port of Tauranga and Oji Fibre Solutions have agreed on a ten year extension to our long-term operating agreement. Oji, New Zealand’s major manufacturer of market kraft pulps, container board and packaging products, has committed to consolidating the majority of its import and export cargo through Tauranga.

Trade trends

Exports increased 11.2% to 17.1 million tonnes and imports increased 8.4% to 9.8 million tonnes for the year ended 30 June 2019.

Log exports increased 12.5% to 7.1 million tonnes. This trend is not expected to continue in the short term, with log prices declining in June 2019 following a drop in demand from China, New Zealand’s biggest log export market. We expect

some impact on volumes in the coming months.

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 dairy herd food supplements decreased 11.8%, and fertiliser imports decreased 9.2%. Kiwifruit exports increased 15.2% during the period.

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

Cement imports decreased 17.1% and steel exports decreased 7.7%. Salt imports increased 26.8% in volume.

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

“

The Board has decided to extend the capital repayment programme from October 2020 through special dividends of 2.5 cents per share for another four years, subject to meeting certain conditions.

Ship visits decreased 3.9% to 1,678 for the year. The average size of vessels continues to increase. The average gross tonnage of container ships visiting Tauranga has increased 25.2% between 2016 and 2019.

Financial performance

Revenue increased 10.4% to \$313.3 million. Parent EBITDA (earnings before interest, tax, depreciation and amortisation) increased 12.4% to \$168.6 million.

Associate and Subsidiary Company performance

Earnings from Associate Companies decreased 27.5% after a very disappointing result from Coda Group, our 50/50 joint venture with Kotahi. We are confident Coda Group will return to profitability in the next financial year. Coda Group's new Chief Executive, Gerard Morrison, has embarked on an extensive change programme to ensure its long-term success.

Our 100% subsidiary Quality Marshalling had an outstanding year, with profits increasing 15.1%, and our joint venture in the South Island, PrimePort Timaru, increased its contribution by 36.6%.

Dividend policy extended

The Port of Tauranga Board of Directors declared a final fully imputed dividend of 7.3 cents per share, bringing the full year's dividend to 13.3 cents per share, a 4.7% increase on the previous year.



The last of four special dividends of 5.0 cents per share will be paid on 4 October 2019.

The Board has decided to extend the capital repayment programme from October 2020 through special dividends of 2.5 cents per share for another four years, subject to meeting certain conditions.

Health, safety and people

We continue to make progress towards our health and safety goals, with 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.

We have a very special bunch of people working at Port of Tauranga. They show enormous compassion for many good causes. They take immense pride in their surroundings, both in their guardianship of the natural environment and their thorough care of the equipment and facilities we own and operate.

Our people continuously demonstrate a can-do attitude towards the challenges presented to them. Their commitment to problem-solving has contributed to our reputation as an innovative organisation that puts customer needs at the heart of everything we do.

Sustainability

We take climate change seriously in our business and are proud to have one of the lowest carbon emissions per tonne of cargo handled of any port in New Zealand. We are committed to the Paris Agreement target to keep global warming below two degrees.

Port of Tauranga has gained certification of its carbon emissions.

The CEMARS (Certified Measurement and Reduction Scheme) accreditation will help us measure our progress in reducing our carbon footprint.

We have set an initial short-term goal of a 5% reduction in our Scope 1⁴ emissions per cargo tonne and we are targeting net-zero emissions by 2050.

Part of our response is to “inset” carbon offsets by investing the money into sustainability initiatives within our business. This year, this fund sits at just under \$1 million.

The largest source of our Scope 1 emissions is from diesel-powered straddle carriers at the container terminal and we are using the inseting fund to purchase 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.

We are also replacing light vehicles with electric or hybrid models where available, installing LED lighting, and using biodiesel. We favour electricity suppliers that use renewable energy sources. Our modern fleet of ship-to-shore gantry cranes now all have sophisticated electric motors that re-generate up to 700 kw of electricity when lowering a container. Excess electricity can be made available to adjacent cranes lifting containers, or fed back into the terminal to power refrigerated container connections.

Our emissions from waste to landfill have grown due to increased wharf sweeping to prevent dust and debris entering the harbour. A large proportion of bark from the log wharves is already recycled into compost, and we are looking at ways we can recycle more waste.

“

We have set an initial short-term goal of a 5% reduction in our Scope 1 emissions per cargo tonne and we are targeting net-zero emissions by 2050.



4. Scope 1 measures the direct emissions of our activities on site. Scope 2 measures carbon consumed but not created (e.g. electricity from the national grid). Scope 3 measures emissions from other parts of our supply chain (e.g. air travel)

“

We continue to focus on maintaining diversity in our cargo and customer mix, giving us a range of revenue sources and ensuring we can capitalise on any new business opportunities.



We favour rail transport over road because of the lower emissions and are working with our rail partners KiwiRail to reduce train-related emissions through efficiency and technology. We are also working with Pacifica Shipping to promote greater use of coastal shipping where feasible.

The availability of rail and coastal shipping to consolidate cargo at the Port, and the efficiency of the big ship services, means Port of Tauranga is the obvious choice for customers seeking the lowest carbon supply chain. Big ships of 7,500 to 9,500 TEUs have a carbon footprint more than 31% lower than the previous average size vessels calling in New Zealand⁵.

In addition to our response to climate change, we are placing increasing focus on the impact of our growing business on our various communities and stakeholder groups.

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 and spill prevention.

We encourage the moves to require ships to use low sulphur fuel and note the continuing improvements to minimising the amount of the log fumigant methyl bromide that is released to the atmosphere.

Upper North Island Supply Chain Review

In February 2018, the Government announced an Upper North Island Supply Chain Review. A working supply group is reviewing the current supply chain to advise on priorities for transport investment, with a view to moving significant cargo volumes from Ports of Auckland to Northport in Whangarei. We see a growing role for Northport in helping to alleviate the pressure on Ports of Auckland.

After the release of the working group’s interim progress report, we hosted the group in Tauranga and outlined the significant capacity still available for cargo growth. We look forward to the group’s future reports, which we hope will address well-known issues such as the need for increased investment in road and rail networks and the historic financial under-performance of some port companies.

External influences

Port of Tauranga’s ability to create value for our stakeholders is impacted by external factors. This includes economic conditions, trade trends and technological change. We also operate within the context of the current political environment, both locally and nationally. We share our views with elected representatives across the political spectrum, especially in regard to regulatory and legislative changes impacting the port industry.

5. http://shipperscouncil.co.nz/wp-content/uploads/The_Question_of_Bigger_Ships-1.pdf

“

Finally, we would like to acknowledge and thank our loyal staff and contractors, whose dedication, innovation and enthusiasm make Port of Tauranga New Zealand's Port for the Future.



Current global influences include increased trade protectionism (including the tension between the United States and China), political uncertainty with the ongoing Brexit process, and geopolitical threats involving the Middle East, Russia and North Korea.

Market outlook

Log export prices dropped sharply mid-year from their historic highs due to multiple international market influences. We expect some impact on volumes in the coming months, in line with the usual fluctuations in demand for this commodity. Port of Tauranga's largest log export customers source logs from the extensive forestry estates in the central North Island, which tend to maintain steady harvesting rates.

We continue to focus on maintaining diversity in our cargo and customer mix, giving us a range of revenue sources and ensuring we can capitalise on any new business opportunities.

We will provide earnings guidance for the 2020 financial year at our Annual Shareholders Meeting on 25 October 2019, once we have a feel for the first quarter's trade.

Finally, we would like to acknowledge and thank our loyal staff and contractors, whose dedication, innovation and enthusiasm make Port of Tauranga New Zealand's Port for the Future.

A handwritten signature in black ink, appearing to read 'D. Pilkington'.

David Pilkington

Chair

A handwritten signature in black ink, appearing to read 'Mark Cairns'.

Mark Cairns

Chief Executive