

PORT OF TAURANGA ANNUAL MEETING 2020

1 pm, Friday 30 October 2020

Chief Executive – Mark Cairns

Kia ora tatou. Good afternoon Ladies and Gentlemen and thank you David for your kind words. Before I offer some thoughts in response, I will share some of the operational highlights for the year.

As the Chair has outlined, it would certainly be an understatement to describe 2020 as a tumultuous year. Our systems, processes and people were tested in a myriad of ways. And David is right, it is our people that I am most proud of.

Through a number of pieces of legislation, Ports are defined as “*essential services*” and consequently our people “*essential workers*”, which meant our staff didn’t get to have a month of unplanned holiday, back in March.

Most of our frontline team were very anxious about being required to continue working through the lockdown and not only concerned for their own health, but more so for the health of their families back in their homes. However, our staff showed great courage and stepped up; utilised Personal Protective Equipment to a much higher standard than required by the Ministry of Health at the time, and ensured that essential cargoes kept moving, including the medical and Personal Protective Equipment supplies that the country desperately needed and also ensuring that our food exports such as kiwifruit, dairy, and meat exports kept flowing.

Daily procedures included temperature checks at gate-in, the wearing of N95 masks and nitrile gloves, social distancing and separating into different workgroup pods to remove any potential cross-contamination, close attention to hand hygiene and frequent surface sanitisation of vessels, machinery, and offices. Today, our frontline workers such as our pilots continue to operate on the other side of the border at Level 4 standards, despite the country now being in Level 1.

During the lockdown, we also utilized our in-house resources and Liebherr technicians located up in Killarney, to remotely commission our ninth container crane.

The crane arrived in parts from Ireland in mid-February, was assembled on site, then rolled several hundred metres out on to the berth crane rails, and was then lifting containers and earning revenue within 13 weeks from being unloaded off the ship.

Ironically during lockdown, the container terminal team set a new record container exchange on a single vessel, eclipsing the previous record of just under 7000 boxes, by more than a

third and exchanging 9,367 TEUs on the Sally Maersk, one of the largest vessels calling New Zealand, that can only get into the deeper shipping channels of Tauranga.

Despite these Herculean efforts, Covid-19 has inevitably impacted our cargo volumes and financial results for the year.

Exports for the year ended June decreased 8.0% to 15.8 million tonnes, mostly due to a 22% reduction in log exports. It was a challenging rollercoaster ride for our log exporters. In the first half of the financial year, log volumes were hit by lower international prices and demand. By March, positive signs were emerging in China, New Zealand's major log export market, as business there returned to normal after the extended Chinese New Year.

Just as demand was increasing, New Zealand went into Level 4 lockdown at midnight on the 25th March and forestry was deemed a non-essential industry. We were allowed to ship inventory already on our Mount Maunganui wharves, but log cart-in came to a standstill and did not resume through the port gates until early May.

As well as the drop in log volumes, sawn timber exports decreased 10.4% in volume. Pulp and paper exports fared a little better, increasing slightly over the full year.

Dairy product exports increased 1.7% to nearly 2.4 million tonnes. Meat product exports increased 15.4% in volume.

Overall import volumes decreased 7.8% to just over 9.0 million tonnes for the year.

Imported fertilisers remained steady in volume compared with the previous year.

Stock feed imports increased 20.1% in volume due to the prevailing drought conditions. Grain imports increased 26.1% in volume.

Oil product imports decreased 12.3% in volume, reflecting the economic conditions.

Transshipment volumes remained steady despite the overall decline in cargo volumes. Transhipped containers now represent nearly a third of all containers handled through the container terminal.

We continue to see larger but fewer vessels. Ship visits decreased by 9.7%, from 1,678 in 2019 to 1,515 for the 2020 financial year.

Despite the premature and sudden end to the summer cruise ship season due to Covid-19, we still hosted a total of 106 passenger vessels, just 10 fewer than last season. However, we are not budgeting for any cruise ship visits this summer or even the following. Whilst this doesn't represent a significant amount of marine revenue for the Port, it is around \$100 million of cash receipts that will not be going into the Regional Economy.

Our people's health and wellbeing is more important than ever. Our staff wellbeing programme, ShipShape, continues to be well-received. It proved an invaluable platform for promoting physical and mental health during the Level 4 lockdown, when most of our office-based staff were working from home and our operational staff working in separate work pods.

I'm pleased to report that our safety performance has improved again this year, in both lead and lag safety indicators. The combined Port of Tauranga and Contractors' injury rate improved 26% to 4.5 per million hours exposure and there is strong evidence of a proactive safety culture, represented by the increased reporting of near misses and hazards by staff and contractors. Last year there was a 240% increase in staff-led safety interventions. Our new training and development programme, which is supported by an online learning platform, is helping to upskill our team in these areas.

We remain Australasia's most productive container terminal, with an Average Net Crane Rate for the 2019 calendar year further improving to 34.4 moves per hour per crane, well ahead of the New Zealand average of 30.1 moves per hour and the Australian average of 30.8 moves per hour per crane.

Tauranga's ship productivity rate was an average of 83.4 moves per hour, 34% ahead of the national average of 62.3 moves per hour.

Our vehicle booking system is improving traffic flows into the container 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.

We continue to lobby for increased funding and better coordination of transport projects, and we are currently contributing to the Western Bay of Plenty Transport System Plan.

Protecting our environment – and therefore our social licence to operate – is a big focus. We are pursuing this on multiple fronts.

We are committed to sustainability and proud to have been named as a finalist in the Australia New Zealand Certified Practising Accountants Integrated Reporting Awards at which we were highly commended in the "*for profit*" category of the awards.

As a country we need to accelerate the pace of action on climate change if we are to meet our Zero Carbon aspirations. Port of Tauranga wants to make a meaningful difference in the task to decarbonise our country and measuring, understanding and reducing our carbon emissions is one way that we can contribute. As David has mentioned, we managed to cut overall emissions by more than 15% compared to the previous financial year.

Much of the decrease has come through a waste minimisation programme, which reduced the volume of waste going to landfill from our Mount Maunganui wharves by a whopping 48%. Much more waste is being recycled instead, and we believe there are still further gains to be made in this area.

All of our business units reduced emissions compared with the previous year. We achieved a 4% decrease in Scope 1 emissions, which are the emissions we directly control such as diesel use by straddle carriers and our marine fleet. When we measure our intensity – that's Scope 1, 2 and 3 emissions per cargo tonne, we managed an 8% decrease.

Our emissions are certified through the Certified Emissions Measurement and Reduction Scheme, or CEMARS, and audited annually by Toitu Envirocare.

It is really important to us that our emissions reduction strategy is not based on hollow promises. We won't greenwash - the only way to make meaningful change is to break down every part of our business to ensure we are making lasting and tangible changes.

We will invest in proven technology. When there is a lower emission option that is more expensive, such as our new battery-hybrid straddles, we will use our carbon insetting fund, where we have earmarked money we would otherwise spend on carbon credits to be used for meaningful emission reduction investments. We are targeting all new light vehicles being full Battery Electric Vehicles, or Plug in Electric Hybrid vehicles where we need a greater range. I personally am now on my third Battery Electric Vehicle and can be considered a converted EVangelist.

We favour rail transport over road because of the lower emissions. But the real gains to be made in lowering supply chain carbon emissions is in the use of bigger ships. By far the largest proportion of carbon emissions in New Zealand's container supply chain relates to the "blue water" or ocean-going component of the cargo journey.

By way of comparison, a container from China imported through Port of Tauranga on a big ship service generates 20% fewer carbon emissions than one imported through Auckland, even if you take into account the land transport leg.

If you shipped an export container from Hamilton to China, you could reduce your carbon footprint by 29% by sending it out through Tauranga instead of sending it via Auckland.

Moving on to air quality, we have made significant progress in dust suppression, with an efficient wharf sweeping regime now operating continuously and more stringent bulk cargo handling procedures. Wind fences have been erected next to log handling areas and traffic controls installed to confine vehicles and machinery to clean, swept roadways.

The international move to low Sulphur fuel for shipping – or the use of exhaust scrubbers – has had an immediate effect on air quality when measured by Sulphur dioxide levels.

We fully support moves to phase out the use of methyl bromide as a fumigant, and we have introduced financial incentives for bark removal on export logs prior to their arrival at the port. De-barking minimises the amount of fumigation required and can even remove the need altogether.

The amount of methyl bromide used at the port for container and log export fumigation has dropped 37% in the past year as a result of de-barking and other alternatives. Fumigation contractors Genera now utilize recapture technology on close to 90% of log fumigations and 100% of container fumigations.

Our stormwater resource consents require us to carry out additional water quality monitoring and reporting, which has added a level of rigour to our efforts to prevent dust and log bark debris from washing into the harbour during high rainfall. Screening chambers are installed on stormwater drains, and steel fenders and rope bunds at the wharf face prevent any accidental drops into the harbour.

Pleasingly, I have noticed a marked increase in environmental leadership across all our team in recent years, and I can also report that most of the service providers and contractors operating at the Port are showing a similar commitment.

We work closely with the three iwi holding mana whenua status in Tauranga Moana. Through the two different scholarship schemes we administer, we supported 16 Maori tertiary students with their studies in the past year.

We will continue to invest in projects, organisations and events that provide long-term benefits to our community – examples being the Pilot Bay boardwalk, walking tracks on Mauao and the floodlighting at Bay Oval.

In the past year we contributed dividends of \$67.4 million to our main shareholder, Quayside Holdings, which is Bay of Plenty Regional Council's investment arm. Since Port of Tauranga was listed on the NZX in 1992, Quayside has received a total of more than \$860 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. Funded projects include the marine precinct and tertiary education campus here in Tauranga.

Looking to the future, we are seeing Auckland-based businesses moving to the Waikato and Bay of Plenty due to the congestion and high costs of the big city. There are some large scale commercial and industrial developments under way in the regions, including the Ruakura hub development by Tainui Group Holdings in Hamilton.

There are also significant production facilities in the pipeline in the Eastern Bay of Plenty, and Quayside Holdings has further progressed its development of an industrial hub at Rangioru, near Te Puke. In Tauranga, Winstone Wallboards have committed to relocate its factory from Auckland to Tauriko in the next few years.

We are confident of growth over the long-term at the Port, and our ability to retain and grow market share.

The outlook for the 2021 financial year has however presented a few short-term head winds. In the first quarter, cargo volumes were around 5% lower than the prior corresponding period last year. Containerised cargo decreased by 8% to 287,670 TEUs. Imports were the same as the first quarter last year, and exports were down 8%.

Logs are performing in line with our forecast for 6.2 million tonnes this year, but remain vulnerable to variable international demand. Dairy product exports decreased about 12% compared with the same period last year, which is considered to be more of a timing issue.

Kiwifruit is the star performer, with volumes up 9% for the quarter.

Group Net Profit after Tax for the first quarter is flat as compared with the prior corresponding period, which is considered a solid result in view of the Covid effects to this quarter's result.

Covid makes it extremely difficult to forecast future trade flows, but at this stage, and notwithstanding any significant change to market conditions, we expect full-year earnings to be in the range of \$86 million to \$93 million.

Port of Tauranga is a long-run infrastructure company and we will continue to pursue capacity expansion and greater efficiencies, in order to avoid the bottlenecks and congestion currently being experienced in the Upper North Island supply chain.

We have a demonstrable track record of making sound commercial investments and hold a very strong A- credit rating which was reconfirmed last month by Standard & Poors. We believe we are well placed to weather whatever the Covid-19 storm throws at us next.

Before I wrap up, and as this is my last Port of Tauranga annual meeting – on this side of the lectern at least – I'd like to take a moment to reflect on my 15 years with the Company.

I feel hugely privileged to have been given the opportunity to lead such a fantastic team of people and I look back with immense pride at what we have been able to achieve. We have grown Port of Tauranga from a small regional bulk export port, into the largest and most successful port in the country. In calendar year 2019, we handled 55% more containers than our nearest rival and 228% more cargo tonnes overall.

We have built infrastructure and services that bring prosperity to our communities, providing jobs and business opportunities to make many other regions envious.

I am delighted that Leonard Sampson has been appointed as my replacement. Although he will never be as good a fisherman as me, he is an outstanding leader and manages with a very strong customer ethos. Port of Tauranga is in excellent shape and I am excited to watch where it goes next.

Thank you to the Directors past and present who have supported our big ideas while keeping the wood on management with respect to strategy execution and strong capital discipline.

Thank you to our customers and business partners, who have been open to our ambitious ideas and supporting us to be the most efficient and fastest growing port in Australasia.

Above all else, thank you to the amazing team of people we have at the port. It is this team that I am most proud of. They are a fantastic bunch of people who put in extraordinary efforts, 24 hours a day, 7 days a week, 52 weeks a year, in all weathers, to ensure Port of Tauranga remains the great company that it is. The Port has been a huge chapter in my life and it is my extended Port family that I will miss the most.

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