

THE YEAR IN REVIEW:
CHAIR AND CHIEF EXECUTIVE'S
REPORT TO SHAREHOLDERS

The 2020 financial year was a tumultuous one, and we are extremely grateful for the strength, resilience and fortitude demonstrated by the Port of Tauranga team.

RESILIENT





DAVID PILKINGTON – Chair

Our systems, processes and people were tested in a myriad of ways. The effects of the ongoing Covid-19 global pandemic still reverberate in all parts of our business and the long-term impact remains uncertain.

2020 results

Our diversity of cargoes and income streams, strong balance sheet and ongoing vigilance regarding costs have helped Port of Tauranga to weather the initial impact of the Covid-19 pandemic.

As an essential service, Port of Tauranga continued trading through all Government alert levels.

For the financial year ended 30 June 2020, Port of Tauranga handled a total of just over 24.8 million tonnes of cargo, a decrease of 7.9% on the previous year. Containerised cargo grew 1.5% in volume, to more than 1.25 million TEUs.

Group Net Profit After Tax was \$90.0 million, compared with \$100.6 million in 2019. The Board has declared a final dividend of 6.4 cents per share.

Dividend policy reviewed

The Board has reviewed our dividend policy in the light of the pandemic and its fallout.

Our special dividend scheme will be suspended, with funds reserved to accelerate capital expenditure such as our planned container berth extension. Our policy is to maintain an ordinary dividend payout of between 70% and 100% of Underlying Net Profit After Tax

Hub port strategy success

Partnerships with our key customers are an integral feature of Port of Tauranga's long-term success and ability to invest in building capacity.

We have extended our strategic alliance with Kotahi, New Zealand's largest containerised freight exporter.

All of our business units reduced emissions compared with the previous year.

The renewed agreement extends Kotahi's freight volume commitment to Port of Tauranga for an additional seven years, through to mid-2031. Kotahi manages freight on behalf of more than 40 of New Zealand's importers and exporters, including its shareholders Fonterra and Silver Fern Farms.

The alliance has already brought significant benefits to New Zealand. When it was established in 2014, it paved the way for the introduction of the next generation of larger, more efficient container ships to New Zealand – and with them a lower carbon supply chain.

In September, we celebrated the 20th anniversary of our MetroPort Auckland freight hub, the country's first true intermodal inland port. MetroPort's rail links and strategic location in the South Auckland industrial belt give shippers easy access to the big ship services that call at Port of Tauranga.

We've replicated the intermodal model at our MetroPort Christchurch facility at Rolleston, and we are now partnering with Tainui Group Holdings to develop an inland port in Hamilton.

Ruakura Inland Port partnership announced

Port of Tauranga and Tainui Group Holdings are forming a 50:50 joint venture to bring the Ruakura Inland Port at Hamilton to fruition within two years.

The new joint venture will take an initial 50-year ground lease to establish the inland port, and plans to start operations at Ruakura following the opening of the nearby Hamilton section of the Waikato Expressway, currently scheduled for late 2021.

The project is of national scale and significance and will add to Port of Tauranga's strong and growing capacity to serve the Auckland, Waikato and Bay of Plenty regions. It combines the Port's expertise in developing and operating ports, the deep regional connections of Tainui and the scale and efficiencies offered by the site.

It will also unlock significant environmental and economic benefits for freight customers using the rail-connected inland port.

The facility will cover approximately 30 hectares, with 192 surrounding hectares earmarked for logistics and industrial uses. The project has attracted Government funding for roading connections, as has a new industrial park under development to the port's east, at Rangiuuru near Te Puke.

Carbon emissions cut by 15.3%

Measuring, understanding and reducing our carbon emissions is a big focus and we are proud to report that the Company has cut its overall emissions by 15.3% compared with the previous financial year.

Much of the decrease has come through a waste minimisation programme that reduced the volume of waste going to landfill from the Mount Maunganui wharves by 48.5%. Significantly more waste is being recycled instead, and we believe we can still generate further improvements in this area.

All of our business units reduced emissions compared with the previous year.

Our emissions are certified through the Certified Emissions Measurement and Reduction Scheme (CEMARS) and audited by Toitū Envirocare. It is important to us that our emissions reduction strategy is not based on hollow promises or "greenwashing". Our approach is to break down every part of our business to ensure we are making lasting and tangible change.







Cargo volume trends

Exports decreased 8.0% in volume to nearly 15.8 million tonnes and imports decreased 7.8% to just over 9.0 million tonnes for the year ended 30 June 2020.

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, our major log export market, as business there returned to normal and demand increased.

However, log and other forestry product exports were deemed a non-essential cargo during the Level 4 lockdown from late March. Inventory stored at our Mount Maunganui wharves could be shipped to make way for essential cargoes, but no new exports came through the port gates until early May.

Overall, log volumes decreased 21.5% compared with the previous year, to 5.5 million tonnes. Sawm timber exports decreased 10.4% in volume. Pulp and paper exports increased slightly over the full year.

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

Kiwifruit export volumes remained steady, with increasing volumes shipped via container.

Imported fertilisers remained steady in volume compared with the previous year, while protein

and feed imports increased 20.1% in volume. Grain imports increased 26.1% in volume.

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

Transshipment rates remained steady, despite the overall decline in cargo volumes. Transshipment, where cargo is transferred from one ship to another at Tauranga, increased 0.2% overall.

Ship visits decreased by 9.7%, from 1,678 to 1,515 for the year.

Impact of Covid-19 pandemic

Port of Tauranga felt the impacts of Covid-19 well before the virus reached New Zealand. As China extended its New Year shutdown to contain the outbreak, log inventories in China surged and exports from New Zealand shrunk considerably.

As New Zealand imposed its own strict border controls and subsequent local lockdown, we had a duty to ensure that imports and exports could flow unimpeded across our wharves. We implemented extensive measures to protect our people, trade and the community.

These included cleaning of all shared work stations and equipment between shifts, and more frequent cleaning of shared facilities such as staff rooms, toilets and vehicles. Shifts and teams were separated, including on breaks.

Non-essential shuttle transport for international crews was suspended, effectively cancelling crew shore leave. Electronic transactions were encouraged at our Tauranga container terminal and MetroPort Auckland.

Our administration offices were closed to visitors, in-person meetings were cancelled and all employees who could work from home were asked to do so. Our IT team worked long hours to ensure this was as seamless as possible.

Our health and safety team sourced vital supplies of personal protective equipment and cleaning supplies to protect our frontline workers. Disposable gloves and masks remain in use by maritime pilots and the crew members they come into contact with.

Essential cargoes prioritised

Importers were encouraged to identify cargo required for essential services before its arrival in New Zealand so that it could be handled and transported first. The dwell charges deadline for priority cargo was extended to provide relief to our customers while ensuring cargo was collected promptly.

As Level 4 lockdown was introduced from 25 March, we made arrangements in both Tauranga and Auckland to ensure non-essential cargo could be temporarily stored on or off-site until it could be collected by truck or transferred by rail to MetroPort Auckland. Dwell charges were suspended for these cargoes.

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

Cruise ship season disrupted

In December, 38 passengers visiting Tauranga on the *Ovation of the Seas* cruise ship were caught in a volcanic eruption while visiting Whakaari White Island, approximately 90 kilometres away. The ship extended its stay at Tauranga by several days and a karakia was held by local iwi Ngāi Te Rangi before its departure. A total of 47 people were killed or injured as a result of the eruption.

In February, the unfolding Covid-19 crisis threw cruise ship schedules into chaos, with multiple service changes and cancellations through to mid-March, when the Government announced a ban on cruise ships entering New Zealand waters. One of our regular cruise ship visitors, the *Noordam*, spent five nights on an unscheduled layover, with only crew on board, in early March following a charter cancellation.

In total, Port of Tauranga lost 16 cruise ship visits from the end of the 2019/2020 season, and we are currently not budgeting for any visits in the 2020/2021 season.



Lessons from lockdown

The pandemic revealed the strength of our team in many ways.

During the lockdown, we utilised our in-house resources and remote support to commission our ninth container crane.

The crane arrived in parts from Ireland in mid-February, was assembled on site and then moved several hundred metres on to the berth.

The Tauranga Container Terminal team handled a record container exchange in April, obliterating all previous records. The *Sally Maersk* container ship exchanged 9,367 TEUs over two and a half days before departing Tauranga for Kaohsiung in Taiwan.

STRO TOGETH

At the same time, another 1,772 TEUs were exchanged on two other vessels, all while maintaining the physical separation of workers demanded by Covid-19 lockdown restrictions.

Many of our team were anxious about continuing to work through the lockdown and concerned for the health of our loved ones. However, they also realised their privilege in continuing to work while many people in our region lost their jobs or worked reduced hours.

The crisis pushed many local families into vulnerable positions and our team suggested we make a one-off donation to the Tauranga Community Foodbank, which the Port donates to each Christmas. We made a \$25,000 donation in late April.



Log ship stranded at harbour entrance

Our team's resilience was once more put to the test when a departing log ship lost engine power at the harbour entrance during extreme weather in July.

The *MV Funing* drifted to the edge of the shipping channel and became entangled in a marker buoy. Our marine team, including maritime pilots and tug boat crews, managed to tow the disabled vessel to a deeper anchorage. The ship was subsequently towed into port for further inspections and repairs.

Upper North Island Supply Chain Review continues

In February 2018, the Government announced an Upper North Island Supply Chain Review as part of the coalition agreement between Labour and New Zealand First. A working group recommended that Ports of Auckland's cargo volumes be shifted to Northport.

A subsequent review of the working group's recommendations was undertaken by economic consultants Sapere. It concluded that a new port on the Manukau Harbour was the best option for Auckland cargo, with the second best option being Port of Tauranga.

SCALING UP





A Government decision has been deferred until after the 2020 election and a detailed feasibility study would still be required to test whether a Manukau Harbour option is even possible, given the major shipping issues, costs and environmental impact.

In the meantime, Port of Tauranga continues to increase capacity without increasing our existing footprint.

Sapere's report is the latest of more than 20 reports to examine this issue in the last 15 years. In our view, if all port companies simply priced and invested to achieve a cost of capital return, a natural hierarchy of ports would emerge quite quickly. Ultimately, Auckland City ratepayers and the Government need to decide whether they wish to fund a major new port or utilise the current well-performing and efficient assets at Northport and Port of Tauranga.

In the meantime, Port of Tauranga continues to increase capacity without increasing our existing footprint. International experts have told us that Port of Tauranga can easily accommodate up to 2.8 million TEUs on our current land holdings. There is also the opportunity to factor in the future freight handling capacity of the Ruakura Inland Port in Hamilton.

Changes to the leadership team

During the year we had two retirements from the Senior Management Team – our award-winning Chief Financial Officer of 13 years, Steve Gray, and our Corporate Services Manager, Sara Lunam.

Simon Kebbell, formerly Port of Tauranga’s Finance and IT Manager, became Chief Financial Officer in July.

Chair David Pilkington was named Chairperson of the Year at the Deloitte Top 200 Business Awards.

As part of its succession planning, Port of Tauranga appointed Leonard Sampson to the newly-created position of Chief Operating Officer, reporting to the Chief Executive. Leonard was the Port’s Commercial Manager for seven years after joining the Company from KiwiRail.

Blair Hamill, formerly Zespri International’s Chief Global Supply Officer, took up the Commercial Manager position in July.

Port of Tauranga’s longstanding Group Health and Safety Manager, Pat Kirk, has joined the Senior Management Team. Pat has been with the Company

for seven years and has more than three decades’ experience in health and safety.

Two other appointments have also been made to the Senior Management Team. Melanie Dyer, formerly Trustpower’s General Manager People and Culture, started in August as our new Corporate Services Manager. Our Communications Manager, Rochelle Lockley, will join the team in September.

Prestigious business award for Port of Tauranga Chair

Chair David Pilkington was named Chairperson of the Year at the Deloitte Top 200 Business Awards. David joined the Port of Tauranga Board in July 2005 and has been Chair since 2013.

His win scored a hat trick for Port of Tauranga Limited at the prestigious annual awards. Mark Cairns won the accolade for Chief Executive of the Year in 2012, while Chief Financial Officer, Steve Gray, won CFO of the Year in 2017.

External influences on our business

Port of Tauranga’s ability to create value for our stakeholders is impacted by multiple external factors. They include economic conditions, trade trends and longer-term influences such as technological and social change. We also operate within the context of the current political environment, both locally and nationally.



We are grateful for the ongoing support of our community and iwi as we play our role in the management of and recovery from the Covid-19 pandemic.

The impacts of the Covid-19 pandemic, and the resulting worldwide economic recession, remain difficult to quantify. Its effects will be far-reaching and long-term. We are already seeing more attention on supply chain resilience and a trend to regionalisation (as opposed to globalisation). We expect lower carbon alternatives to become increasingly important to shippers.

We continue to use our relationships to gather market intelligence and our networks to influence public policy.

Historic growth

We have achieved a compound annual growth rate of 4.76% in cargo throughput over the last 15 years. The rate of container throughput growth has been 7.5% per annum over the same period, with both rates outpacing the 2.8% increase in GDP between 2002 and 2019.

The average annual compounding Total Shareholder Return over the last decade has been 23.34%.

Market outlook for 2021 and beyond

Our long-term track record means we have a strong credit rating and we believe we are well placed to weather the Covid-19 storm.

The short and medium impacts of the Covid-19 pandemic are still uncertain.

We expect cargo volumes to slowly recover over the next three years, with dairy product

and kiwifruit exports likely to be the strongest performers in terms of growth.

We are unlikely to see international cruise ship traffic this coming summer.

We are still confident of growth over the long-term and, given the lead time required for any investment, we continue to pursue capacity expansion.

We will provide earnings guidance for the 2021 financial year at our Annual Shareholders' Meeting on 30 October 2020, once we have a feel for the first quarter's trade and the ongoing influence of the Covid-19 pandemic on the global economy.

Thank you

We are grateful for the ongoing support of our community and iwi as we play our role in the management of and recovery from the Covid-19 pandemic.

We would also like to pay tribute to our amazing team members, contractors, suppliers, partners and customers, who have kept the port moving through extremely challenging times and who continue to make Port of Tauranga New Zealand's Port for the Future.



DAVID PILKINGTON
Chair



MARK CAIRNS
Chief Executive