

PORT OF TAURANGA ANNUAL MEETING 2020

1pm, Friday 30 October 2020

Chair – David Pilkington

I am pleased to present a summary of our performance for the year to June 2020.

Port of Tauranga remains New Zealand's largest and most productive port and we offer the most reliable, most efficient and lowest carbon emission supply chain for international shippers. We now handle around 32% of all New Zealand cargo, including 37% of New Zealand exports and 41% of all shipping containers.

Our total cargo volumes for the year ended June 2020 reached 24.8 million tonnes. This was a 7.9% decrease on the previous year, and was largely driven by a drop of almost 22% in export log volumes when forestry was deemed a non-essential sector during the Covid-19 lockdown.

Despite the ongoing disruption caused by Covid-19, containerised cargo volumes increased 1.5% to 1.25 million TEUs for the year.

Transhipments, where containers are transferred from one service to another, remain strong and are evidence of Tauranga's pivotal role as New Zealand's main international hub port. Transhipped containers represent nearly a third of all the containers handled at Tauranga.

Group Net Profit After Tax was \$90.0 million, compared with last year's record result of \$100.6 million.

Revenue dipped 3.6% to \$302.0 million, down from \$313.3 million last year. Group EBITDA was \$166.5 million, a decrease of 8.1%.

We were very pleased with the overall performance of our subsidiary and associate companies. Despite the impact of Covid-19 in the second half of the financial year, their earnings were up 18.4% to \$14.1 million.

PrimePort continues to invest in building capacity and its channel widening and [its purchase of a new tug](#) have allowed larger vessels to visit the Timaru Container Terminal, which is operated by Port of Tauranga.

In light of the Covid-19 pandemic and its inevitable economic fallout, the Board has reviewed its dividend policy. We decided to suspend the special dividend scheme, and use the funds to accelerate capital expenditure to provide for future growth demand.

We are maintaining our existing ordinary dividend policy, which is to pay between 70% and 100% of Underlying Net Profit After Tax. The Board has declared a final dividend of 6.4 cents per share for 2020, which brings the full year ordinary dividend to 12.4 cents per share – that's 90% of Underlying Net Profit After Tax.

Since year end, we completed a successful bond issue, with \$100 million of bonds issued at extremely favourable rates in an institutional bookbuild by BNZ in September. The interest rate for the Five Year Fixed Rate Notes is 1.02%, a margin of 0.9% per annum over the underlying swap rate.

Our diversity of cargoes and income streams, our strong balance sheet and our ongoing attention to costs all helped us through the initial impact of Covid-19.

Our partnerships remain strong and are integral to our future success. We have extended our strategic alliance with Kotahi, New Zealand's largest containerized freight exporter.

Our renewed freight agreement extends Kotahi's volume commitment for an additional seven years, through to mid-2031. This is a significant quantum of cargo, as Kotahi manages freight on behalf of more than 40 of New Zealand's importers and exporters, including Fonterra and Silver Fern Farms.

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

In September 2019 we celebrated the 20th anniversary of MetroPort, which gives Auckland shippers easy access to the big ship services that only call at Tauranga. MetroPort was the country's first true intermodal inland port.

We've gone on to replicate the model at our MetroPort Christchurch facility at Rolleston, and we are now partnering with Tainui Group Holdings to develop the Ruakura Inland Port in Hamilton.

We have formed a joint venture to develop the 30 hectare inland port in the heart of a 192 hectare logistics and industrial hub. Ruakura is connected by rail to both Auckland and Tauranga and will enable us to better serve Waikato-based importers and exporters.

The ongoing saga of the future of Ports of Auckland continues. It has been two and a half years since the Government announced the Upper North Island Supply Chain Review as part of the coalition agreement between Labour and New Zealand First. The review working group recommended that Ports of Auckland's cargo volumes be shifted to Northport.

The Government then commissioned a further report from economic consultants Sapere, who concluded that - notwithstanding potential engineering and consenting issues - a new port on the Manukau Harbour was seen as the best option for Auckland cargo, with the second best option being Port of Tauranga.

Further discussion and review of the Sapere Report by officials was postponed until after this month's election, so we will wait to see what action – if any – is taken by the new Government.

Forgive me if I sound a little weary of this topic – the Sapere report is the latest of more than 20 reports to examine this issue in the last 15 years. I've said it before and I will say it again - if all port companies simply priced and invested to achieve a cost of capital return, a natural hierarchy of ports would emerge quite quickly.

We continue to urge the Auditor-General to put closer scrutiny on business cases for large infrastructure projects. We seek a return of at least 7.5% after tax on capital investments, but some of our peers do not appear to apply any such rigour and continue to make uneconomic investment decisions.

A number of companies, and their owners, seem to ignore the Port Companies Act requirement to act and operate as a successful commercial business.

In the meantime, Port of Tauranga continues to increase capacity without increasing our footprint. International experts have told us that we can accommodate around 2.8 million TEUs per year on our current landholdings, albeit with some investment. We took delivery of our ninth container crane and seven new straddle carriers, including three battery hybrid models, at the beginning of 2020.

As we described last year, berth capacity is the biggest current constraint to further growth in container volumes. Our planned berth extension, to the south of the existing container wharves, will create a fourth berth.

With the addition of additional ship-to-shore cranes, straddle carriers and automated stacking cranes, we will be able to more than double the amount of container cargo handled through the terminal.

The future freight handling capacity of inland freight hubs will also help us increase our capacity.

Mark will give a comprehensive update about our environmental initiatives in his address, but I would just like to acknowledge the significant progress we are making in this area.

Overall carbon emissions reduced 15.3% over the year and decreased in every business unit.

We also continue to invest in improving both air and stormwater quality.

We are pleased that the international imposition of low sulphur fuel standards has had an immediate measurable effect on air quality in and around the port.

De-barking of export logs has also reduced the amount of methyl bromide fumigation required, with use dropping over a third in volume.

During the year two of our senior executives retired - Corporate Services Manager Sara Lunam and our widely recognised Chief Financial Officer Steve Gray.

Steve was with the Company for 33 years, 13 of them as CFO. While we will miss his presence on the senior management team, we are pleased to have retained his services through governance roles with our associate companies.

The Board was very pleased to make an internal appointment to the CFO role, with our long-serving IT/Finance Manager, Simon Kebbell, officially taking over the role on 1 July.

This is the last annual meeting of Port of Tauranga shareholders for our widely respected Chief Executive. Mark will be retiring, after 15 years with the Port, in June of next year, at the end of the 2021 financial year.

The CEO role will also be filled by an internal appointment. As I shared with you last year, the Board has put a strong emphasis on succession planning and our Chief Operating Officer, Leonard Sampson, has been named CEO Designate in anticipation of Mark's retirement. Leonard has been with the Company for seven years, following roles at KiwiRail, Carter Holt Harvey and Mainfreight.

It is a reflection of our bench strength that we have been able to make internal appointments to these two roles, and there is a strong team to lead the Company into the future. Our Group Health and Safety Manager of the past seven years, Pat Kirk, and Communications Manager, Rochelle Lockley, have also joined the Senior Management Team. We have recently made a couple of strong external appointments too, with Commercial Manager Blair Hamill joining us from Zespri, and new Corporate Services Manager Melanie Dyer joining us from Trustpower.

When I was re-elected as Chair in 2017 I indicated it would likely be my last term. Given the recent retirement of our CFO, and Mark's impending departure, the Board asked that I consider standing again this year to assist with the senior management transition before handing over to a new Chair. As you will note from the Notice of Meeting I have agreed to this request and I will elaborate further when we come to that part of the Agenda.

Before I hand over to Mark, I would like to take a moment to reflect on some of his remarkable achievements in the last decade and a half.

When Mark was appointed as Chief Executive in 2005, Port of Tauranga handled just 12.6 million tonnes of cargo each year and just over 430,000 TEUs. In the year to June 2020, the Port handled double those cargo volumes and treble those container volumes.

This incredible growth has only been possible because of our very strong relationships with our customers and suppliers. Mark has kept the Company strongly focused on future opportunities and planning for the future.

He has also led the Company to an industry-leading safety record and the highest productivity rates in Australasia.

During Mark's tenure, the average compounding Total Shareholder Return has been 19% per year, with market capitalization increasing by \$4.4 billion, from \$665 million to \$5.1 billion.

He's won several accolades, including Chief Executive of the Year in the 2012 Deloitte Top 200 Business Awards, and the prestigious Caldwell Partners Leadership Award in last year's Institute of Finance Professional Awards.

However, I know that the one thing Mark is most proud of, apart from his fishing skills of course, is the Port of Tauranga team. The people who come to work at all hours and in all weathers, to keep New Zealand's cargo moving.

My sincere thanks to Mark, the rest of the Senior Management Team, my fellow Directors, the Port team and many contractors for the commitment and dedication to this Company – I especially want to acknowledge all of the staff that continued to ensure, despite the Covid-19 lockdown, that Port operations were able to continue smoothly in the light of the extraordinary challenges.

I'll now hand over to Mark to share his reflection on the past financial year as well as the ones ahead.