Chair's Speech

Annual Meeting 2023

Friday, 27 October 2023 at 1pm

Chair – Julia Hoare

I'll start with the highlights and challenges of the past year for the Port of Tauranga Group.

The 12 months to June 2023 was certainly a year of two halves. In the first, we were assisted by an increase in container transhipment, and we saw the welcome return of cruise ships over the summer.

In the second half of the year, we experienced the impacts of the extreme weather events in the North Island. While Port of Tauranga was fortunate enough to not incur any damage to port infrastructure, there was significant disruption to transport networks and some cargo volumes were affected.

Cyclone Gabrielle, in particular, caused much damage across the forestry sector. This resulted in the early harvesting of some cyclone-damaged trees. As a result, export log volumes through Tauranga remained strong throughout the year.

Since April, we have seen a significant decrease in imported container volumes due to a weaker domestic economy, as reflected in the national trade data reported by Statistics NZ over the last two quarters.

Despite these impacts, I am pleased to report that the company performed well and returned another year of excellent financial results.

Group Net Profit After Tax increased 5.2% on the previous year, to $117.1 million. This was largely driven by the parent company earnings, which increased 7.7% while subsidiary and associate company earnings declined 10.7%.

Total revenue was $420.9 million, an increase of 12.2%.

Costs also grew substantially, especially for labour and fuel. Operating expenses increased 15.6% to $210.6 million. In addition, renegotiation of our contracts with KiwiRail led to a significant increase in rail costs, which is likely to have caused modal shift for some importers in particular.

The Board declared a final dividend of 8.8 cents per share, to bring the total dividend for the 2023 financial year to 15.6 cents per share – a 6.1% annual increase.

As New Zealand's largest port, we continue to invest in the capacity, resilience and efficiency of the New Zealand supply chain.

We have recently opened the Ruakura Inland Port in Hamilton, directly connecting the Waikato region by rail to our facilities in Auckland and Tauranga. It is a 50 year, 50:50 joint venture with Tainui Group Holdings or TGH.

In TGH we have found a long-term partner that shares our vision and values. The partnership brings together our expertise in cargo handling and logistics and TGH's deep regional connections and we look forward to continuing to strengthen our relationship.

Ruakura Inland Port is a real game changer for the Upper North Island freight network, unlocking environmental and economic benefits for importers and exporters based, or soon to be based, in the Waikato.

Inland ports play a crucial role in our vision for a more integrated and efficient Upper North Island supply chain.

This investment is the latest in more than a decade of developments designed to ensure New Zealand remains competitive internationally, by facilitating visits from bigger container ships. Our strategy supports New Zealand's decarbonisaton efforts, addresses shipping capacity constraints and protects our nation's access to its global customers.

There is still one crucial development urgently required.

As you are no doubt well aware, we have been trying to obtain a resource consent to convert some of our land at Sulphur Point into a third container ship berth. This development has been included in the Regional Coastal Environment Plan for decades, and formal consultation began back in early 2019.

An Environment Court hearing on the application was held across three weeks in early March this year. We are still waiting for an outcome and are hopeful of an imminent resolution.

The berth project is critical to the New Zealand economy. Without it, importers and exporters will face capacity constraints within a few years. We already have a number of weekly services on our waiting list for berthing windows.

The project is an essential one for building resilience too. The catastrophic weather events of this year have demonstrated once again that New Zealand is in need of greater resilience and capacity in the national supply chain.

Concurrently, we are pursuing our plans to automate new container storage areas at the terminal. The automation is planned to both accelerate our decarbonisation progress and increase our capacity within the current footprint. Our biggest source of greenhouse gas emissions is diesel use, so opting for all-electric automatic stacking cranes offers significant efficiencies over an equivalent diesel straddle operation.

Leonard will expand on the automation project in his presentation.

Our capacity-building plans are critical to the future of New Zealand Inc. We simply cannot meet our trade needs as a nation without investment in infrastructure, particularly in the Upper North Island freight network – including ports.

The current regulatory framework does not always encourage nor facilitate investment in new or existing infrastructure - even when it is environmentally sound and/or critical to the national economy. In our view, there are challenges in upgrading existing assets to ensure they are fully utilised. As a result the adoption of new technology such as automation may be delayed. Therefore we are missing out on the associated economic and environmental benefits, including decarbonisation opportunities.

The new Government has an opportunity to smooth the path for sound investment, as well as deliver the required transport infrastructure, to facilitate a truly integrated, resilient and cost-effective Upper North Island supply chain.

Port of Tauranga is strongly focused on decarbonisation as part of our commitment to long-term sustainability. We have made significant progress in improving fuel efficiency and reducing waste and, in accordance with New Zealand's commitment under the Paris Agreement, are committed to reaching net zero greenhouse gas emissions by 2050. Our Scope 1 and 2 and key Scope 3 emissions have been audited annually since 2017.

We are undertaking a large volume of work to prepare us for the new, comprehensive Climate-Related Disclosures regime. We have engaged external expertise to assist us with this work, and we have been supported by external advice at a governance level too.

We will produce our first audited Climate-Related Disclosures report with our annual results in 2024. We are also mindful that our future disclosures will also need to consider the Taskforce on Nature Related Disclosures.

As promised at last year's Annual Meeting, we have undertaken a thorough benchmarking exercise on Directors' fees and, as part of our information accompanying our resolutions, we have shared with you a summary of the independent report by Ernst & Young.

EY has provided us with benchmark data for a comparator group of New Zealand companies of similar size or operations. What we are recommending to you today raises Port of Tauranga Limited directors' fees to the top of the <u>bottom</u> 25th percentile of this sample group, meaning the fee level of 75% of the companies in this group are above the amount we are requesting approval for in our resolution. I will comment more on this shortly.

Our last directors' fee review was undertaken in 2021. Since then, the regulatory and compliance landscape has continued to evolve.

The remit of our Audit Committee has been expanded to include broader sustainability and our obligations under the Carbon-Related Disclosures regime.

The Board has also recently established an additional Board sub-committee, the Health and Safety Committee, to assist us in focusing even more deeply on our health and safety practices and responsibilities. Whilst we consider we have a strong health and safety culture, the performance of the New Zealand port industry has rightly been in the spotlight in recent years and we must continue to pursue continuous improvement. There is always room for improvement.

We believe our recommendation sets the fee pool at a level that will continue to attract and retain high-performing Directors. We are seeking shareholder approval for an increase in the aggregate Directors' Fee Pool to $1.125 million.

In that figure we have included headroom of around 16%. It is not our intention to use this headroom to increase base fees this year, and our proposed individual fee increases are set out in the resolution. Rather, it gives us flexibility to accommodate additional duties as required, future CPI increases where appropriate, and also gives us some flexibility to manage transitions around Board appointments.

We will deal with the relevant resolution at the conclusion of Leonard's presentation.

On behalf of Directors and the company, I would like to thank Sir Rob McLeod, who will soon retire from the Board after seven years' service. Sir Rob is one of the two directors appointed by our cornerstone shareholder, Quayside Holdings, and as a result of Sir Rob stepping down from the Quayside board, he will cease to also be a Port of Tauranga director.

Sir Rob's insights and expertise have been highly valued, and his commerical acumen and sound judgement have served us well over the last few years.

As announced last week, Quayside Holdings has recommended the appointment of Fraser Whineray as their second representative on our Board.

Fraser brings a wealth of executive experience, including as Chief Operating Officer at Fonterra and Chief Executive of Mercury. He has also held governance positions with Tilt Renewables, Opus (which is now WSP), and AgriZero.

His deep understanding of global trade and supply chains will be invaluable as we continue to invest in resilience and capacity for the benefit of the New Zealand supply chain.

Fraser will replace Sir Rob at the end of October. As the announcement was outside the statutory timeframes to be included in our 2023 resolutions to you, our request for your approval of his appointment will be included in the resolutions at our 2024 Annual Meeting.

I'd now like to invite Leonard to share his update on the company's trade and operational performance over the past year and some guidance on what we can expect in FY2024 and beyond.