

PORT OF TAURANGA LIMITED ANNUAL MEETING 2021

Friday 29 October 2021, at 1 pm

Chief Executive – Leonard Sampson

Thank you, David, and kia ora koutou.

As David has outlined, the 2021 financial year was a challenging one thanks to our co-stars Covid-19 and congestion.

New Zealand's evolving response to the Covid-19 pandemic continues to have significant impact on our operations. For more than a year, frontline port workers have had to be tested on a weekly or fortnightly basis depending on their role. The local District Health Board has testing facilities on site, and we are required to monitor compliance with the testing regime for our 80 or so employees subject to the Vaccination Order.

Whilst vaccinations were made available in March, they were not made mandatory until July for frontline workers. From 30 September, all of our front-line staff have now received at least one dose and will be fully vaccinated by mid-November.

Port of Tauranga has always strongly encouraged vaccination. We have provided extensive health information, hosted question and answer sessions with local health experts, and facilitated vaccinations on site.

Vaccination is a useful tool in the battle to keep our people, their families, and the community safe from Covid-19. We will also continue to use the other measures we have relied upon for the past 18 months including frequent cleaning, physical distancing from ship's crew, and the use of personal protective equipment. This is in addition to the regular testing requirements.



The pandemic's impact on the international supply chain has resulted in extensive shipping delays, service cancellations, scarcity of supply and volume volatility. This has led to congestion in the container terminal and at our MetroPort facility in Auckland. This situation was at times exacerbated by operational challenges at Ports of Auckland, particularly in the first half of the financial year.

We saw 106 fewer container vessel visits between September 2020 and June 2021. However, the average cargo exchange per container vessel increased 21.7% due to the reduced vessel frequency and shippers maximising available capacity.

We had near-record surges of import container volumes between October and February with not enough rail capacity to handle them, resulting in week-long delays in transferring import containers by rail to Auckland.

KiwiRail provided us additional trains from May, which has helped ease the pressure.

However, container vessels are still arriving off window and taking longer to load and unload. To illustrate, since October 2020 we have seen a 51% increase in static container volume in our Sulphur Point terminal – that's the equivalent of around 5,000 additional twenty foot containers sitting in the terminal at any point in time.

It's simply not efficient to run a container terminal at more than 100% capacity and as a result productivity has suffered, with the average crane rate dropping from 35.8 to 29.7 moves per hour. Costs have risen, including straddle carrier diesel consumption and the related carbon emissions.

That being said, our overriding message has been, that safety should not be sacrificed in the pursuit of speed or productivity.

Unfortunately, there appears to be no immediate fix to the problems in the global supply chain.

In the short-term, a tight labour supply, the unreliability of shipping schedules and fixed rail capacity constrain our ability to deal with large volume surges. The Delta outbreak in Auckland has also impacted wait times at the MetroPort facility, due to Auckland based staff being required to isolate from time to time.

As David mentioned, our joint venture inland port with Tainui Group Holdings will open at Ruakura in the middle of 2022, improving both cargo capacity and connectivity between the Auckland, Waikato, and Bay of Plenty. Earthworks are well under way on the Superhub's roads, supporting infrastructure and the inland port itself.

The first stage covers around nine hectares, including two 800-metre rail sidings, with future stages growing the facility to around 30 hectares.

Longer-term, our berth extension project and terminal automation will help us more than double container capacity at the Tauranga Container Terminal.

Globally, we can see a looming influx of new vessels into the shipping fleet, with near record order books in shipyards to address the current shortage in capacity. But that, again, is a longer-term fix and no comfort for shippers currently experiencing freight cost increases.

We must remain as competitive and attractive as possible to ensure shipping lines continue to call in New Zealand and avoid further reductions in capacity. Our economy depends on it.

Turning to cargo volume trends, the container terminal congestion inevitably impacted container volumes, which reduced by 4.1% to 1.2 million TEUs.

However, total overall trade increased 3.8% compared with the previous year, growing to 25.7 million tonnes.

Imports increased 4.0% to 9.4 million tonnes, while exports increased 3.5% to 16.3 million tonnes.

Log export volumes bounced back strongly from the halt to trade during the 2020 lockdown, increasing 14.3% to 6.3 million tonnes.

Direct dairy exports increased for the year up 2.1%.

Kiwifruit exports increased 10.1% in volume with a mixture of both refrigerated vessels and container volumes. Significant growth is expected to continue for the next few years.

Bulk cargoes were strong for the year with oil product imports increasing 11.6% and cement imports increasing 42.4% in volume, reflecting the strength in the local economy.

Amidst the chaos of the past year, we have continued our efforts to improve air and water quality in and around the port, particularly in dust management for a number of the bulk cargoes.

Fine dust concentrations have reduced by 16.5% in the past year due to increased housekeeping and improved cargo management. Since 2017, our wharf sweeping has increased five-fold and we have introduced technologies such as water misting.

After consulting our stakeholders, we have decided to insist that all methyl bromide fumigations of export log stacks utilise recapture technology. This is over and above any regional or national requirements. In addition, the Environmental Protection Authority has introduced new stricter requirements for buffer zones around fumigation activity.

We expect methyl bromide usage at the port to continue to decrease with a second log de-barker being commissioned by forestry exporters in 2022. De-barking logs off site greatly reduces the amount of pre-shipment fumigation required and avoids log debris being deposited on the wharves during handling.

In terms of water quality, we continue to comply with all the conditions of our stormwater resource consents, benefiting from increased sweeping and use of bark screen chambers. We are also continuing to explore ways to further improve water quality.

Unfortunately, our decarbonisation efforts were thwarted by the container yard congestion, and total carbon emissions increased 7%. Diesel use increased by nearly a third, due to straddle carriers having to shift containers around and travel further within the terminal. Electricity use also increased with refrigerated containers staying longer than usual.

The good news is that we managed to further reduce the amount of waste going to landfill with increased recycling and reuse of waste products helping us to halve the volumes again.

The global trend to bigger ships offers significant decarbonisation benefits. 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.

Port of Tauranga is the only New Zealand port able to handle larger container vessels. We regularly receive vessels with capacity of around 9,500 TEUs.

To give you an example, the carbon footprint for a 20 foot, import container from Shanghai to Auckland via Tauranga on a ship of that size is around 20% smaller than the same container shipped direct to Auckland on a 4,500 TEU vessel. This is true even when you take into account the rail transfer between Tauranga and Auckland.

Our clear opportunity to further reduce carbon emissions lies with our terminal development. Electric auto stacking cranes have significantly fewer emissions than a traditional diesel straddle operation. They will also help us improve safety and reduce operating costs.

The technology will be introduced in blocks and timed to match container growth.

We are very happy with the performance of our first hybrid straddle carriers, which arrived in early 2020. They are reliable, comfortable for operators, and significantly more fuel efficient.

In what has been a challenging year for our people, our employee wellbeing programme, ShipShape, has been helpful in supporting our people throughout the challenges of the past year, providing tools to support mental, physical and financial health.

In recognition of the outstanding commitment of our team over the past year, we were pleased to acknowledge our employees with a bonus 2021 "share issue".

In the past few months, we have taken the opportunity to review our Purpose, Vision and Values statements, and ensure that our business and sustainability strategies are closely aligned. This framework will ensure we focus our attention, effort and resources in the right places, and that our focus reflects the priorities of our internal and external stakeholders.

Our Purpose is connecting New Zealand and the world. Our aspirations for 2030 are to drive national prosperity, improve community wellbeing, protect our natural environment, respect mana whenua, nurture our people, provide superior customer

service and deliver long-term value. For those of you interested, we expand on these themes in our 2021 Integrated Annual Report.

The outlook for the financial year remains uncertain. We expect ongoing challenges from the lack of schedule reliability, constrained shipping capacity, and a worsening of labour shortages. Covid-19 precautions will continue to impact efficiency and costs as we prioritise the health and safety of our team members, their whanau and the community.

We are confident that we are well-positioned to meet these challenges. Our diversity of cargoes and income streams – both at Tauranga and from the wider group – give us resilience, and we gain certainty from our long-term freight agreements with major customers such as, Oji Fibre Solutions, Kotahi and Zespri.

Our balance sheet remains strong and we have secured debt at favourable rates.

In the first quarter, total trade increased 6.9% to 6.8 million tonnes. Container volumes have increased 8.1% to 311,000 TEUs, reflecting the fact that some cargo shipped in the first quarter would have normally been shipped earlier in the year. Direct dairy exports increased 6.7% in volume, and kiwifruit exports were also strong, up 7.1% on the first quarter.

Log export volumes have increased 2.4% to 1.6 million tonnes.

Container terminal productivity has improved significantly over the first quarter, although there are still delays in transferring some import cargo to Auckland.

While we are still experiencing major disruption to the international supply chain, we have managed to process more vessels and larger volumes of cargo compared with the same quarter last year.

We still do not know the effects of the extended lockdown in Auckland, and the labour shortages being experienced across many industries.

However, based on the first quarter's results, and notwithstanding any significant change to market conditions, we expect full-year earnings to be in the range of \$103 million to \$110 million.

Sadly, we can't offer you a tour of your port today, however we have increased the number of port tours throughout the year with more than 2,500 people having visited the Port this year. Covid precautions allowing, we will offer port tours again in January and I hope you can join us then.

Finally, I would like to thank you, our shareholders, for your continued support. I would also like to thank our customers and business partners, who have been incredibly patient and cooperative throughout the challenges of the past 18 months.

Together with our dedicated team, we have continued to ensure New Zealand can remain connected with the world.

Nga mihi nui kia koutou katoa.