

# Chair's statement



## A quiet transformation

Behind Ports of Auckland's red fence, our people have quietly been delivering change. An amazing amount of change. I do not believe many people realise the enormity of the transformation taking place – or the number of world and New Zealand firsts.

Much has changed since I joined the Board in 2010, as we've worked to improve efficiency and put the business on a sustainable footing. Most of that work has been incremental and has brought Ports of Auckland up to international best practice. The work currently underway is revolutionary.

The business has had to adapt to a shifting operating environment, most notably the desire of many in our community to end reclamation and expansion in the Waitematā Harbour. We have given a commitment to end reclamation, but this has created an enormous challenge: Auckland's population is expected to grow by around a million people in the next 30 years, so how do we handle everyone's freight?

Once you accept that you can't do the old-fashioned things like reclaim land, it becomes quite an exciting challenge. How do we put the maximum number of containers and other freight through our little plot of land? Our response to this has to be a quite sophisticated, integrated approach. This includes some physical solutions like automation, vertical infrastructure and freight hubs, but we need to manage all our capitals – including people and the environment – well. That is how we create value for the entire Auckland community.

These elements were brought together to form the core of our 30-year master plan, which was developed in 2017 and put into effect in 2018. Implementation of the plan has been progressing well.

In the past 12 months there has been a great deal of infrastructure work to support automation, as well as thousands of hours of testing of our autonomous straddles (container handling machines). When automation goes live in 2020 we will be the first New Zealand port to automate. The way we are automating and the fact we are automating an operating container terminal are world firsts.

Construction of a five-storey car handling facility on Bledisloe Terminal started in March 2019 and is progressing well. By building vertical infrastructure to handle cars, we create more space without the need for reclamation. The building, which will be finished in August 2020, has some unusual design features intended to help integrate the port with the surrounding community and open up more waterfront space for public use.

The building will have a 110-metre-long LED wall facing Queens Wharf that can be used for visual displays and we will create a beautiful green recreational park on the roof for public use. We believe these features are also world firsts for a working port.

In April 2019 we officially opened our new Waikato Freight Hub and completed our first customer facility. This is a significant milestone for us and for our strategy of extending into the supply chain so we can offer a more efficient and cost-effective service to importers and exporters.

In July 2019 the Board approved the purchase of the world's first full-size, fully

electric port tug. This came about as a result of our commitment to be zero emissions by 2040. When we made that commitment in 2016 there were no electric tugs, and when we approached manufacturers about building one they told us we were dreaming. Management have put in considerable effort, working with the manufacturer, to get this tug to the point of being built. It has been hard work – and the up-front cost is higher than that of a diesel tug – but as a company we feel it is important to make a statement about our commitment to reducing emissions and the urgency of tackling climate change. The operating cost of an electric tug is significantly lower, so in the long run we will save money.

Our final first is a project to build Auckland's first hydrogen production and refuelling facility. Hydrogen has the potential to be a very useful fuel source for the port as it can be produced and stored on site, allows rapid refuelling, and provides a greater range than batteries. We have applied for resource consent for the project and are in the process of procuring a supplier for the necessary equipment.

## Our people

Our people deliver these large, important infrastructure projects and a lot more besides. Their talent and their commitment are what makes this a successful business. Our people have had to deal with a tragedy this year, with the death of a colleague, Laboom Dyer, as a result of a straddle accident. This was a terrible event and on behalf of the Board and everyone who works at the port we pass on our sincere condolences to Laboom's family and friends. Ports are by their nature risky environments, and this accident has



reinforced our determination to engineer out safety risks wherever possible.

Five projects this year have worked toward that goal: automation of the container terminal; construction of a new refrigerated container gantry; installation of lash platforms on all our cranes; construction of a pedestrian access tunnel under a straddle carrier roadway; and construction of a perimeter access road around the container terminal. Each of these projects eliminates a critical risk and will make the port safer.

We have made progress in our work to improve diversity and gender equity. Changes made last year after a review of pay equity mean we are satisfied that men

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and women in the same or similar roles are paid the same. We are now focusing on the gender pay gap, which refers to the difference in pay between the average male and the average female within the organisation. This is quite difficult in an industry that has always been dominated by men and where some high-paying roles – for example marine pilots – have almost no women coming through the ranks.

This year we have promoted two more women to the leadership team and more women to management roles in both operational and back-office areas. We also have one woman in training to be a marine pilot.

Leading change is demanding. Our people are bringing about the transformation of the business, which is exciting for many but can mean extra workloads or worries about future job security for others. As a Board we believe the business has a responsibility to support people through such a significant change, and we are committed to the delivery of a comprehensive 'Future of Work' programme before and after automation goes live.

### Financial

The results this year are down on the year prior. This is due to a cyclical fall in vehicle imports and because of the work we are doing for automation. Port automation is usually done on new ports or terminals, or in areas that are able to be closed. Because we don't have any spare land, we are automating our terminal while still operating, which naturally results in a loss of capacity. This made it harder to handle peak throughput and has resulted in the loss of a significant container service. In addition, car volumes are down as a result of lower demand and the impact of measures to stop the introduction of the brown marmorated stink bug.

Included in the result this year is a one-off gain of \$9.8m from the sale of our Pikes Point property and a revaluation of port investment property. Pikes Point in Onehunga is mainly used for the storage of imported cars. It was not a core asset and has been sold so the proceeds from the sale can be used to fund other, more useful investments. The property sold for \$8.3 million above book valuation.

As a result of the need to fund our investment programme, we have notified Auckland Council of our need to reduce dividends. For the financial years ending

30 June 2020 and 2021 Ports of Auckland anticipates paying a dividend of 20% of after-tax profits. For this year (FY19) we have paid an interim dividend of \$18,626,000, but have decided to not pay a final dividend. Once automation is live and the peak of investment has passed, we will be able to deliver a higher return again.

### Outlook

Looking ahead, the international environment is more challenging and uncertain due to the current geopolitical situation.

While the New Zealand economy has performed well in the past and Auckland is still growing, there has been a significant negative shift in the global trade landscape. The United States' increasingly protectionist stance, the resulting trade war with China, Brexit, and greater uncertainty are leading to international trade weakening as a driver of economic growth. The impact of climate change remains a risk locally due to more extreme weather events and sea level rise, but also internationally due to its potential to disrupt international trade. We believe this needs an urgent response and we are acting accordingly.

On the political front, Ports of Auckland and its location in Auckland continues to be a topic of much discussion. Such speculation is unsettling for staff and customers alike and we hope the next 12 months will provide some resolution of the topic with the conclusion of the Government's Upper North Island Supply Chain Study. Whatever the outcome, it is clear that moving a port is a large and expensive job that will take decades. So in the interim the implementation of our 30-year master plan remains a priority.

Ports of Auckland is in good health; however, execution risk with the automation of the container terminal is considerable as are our safety and social licence risks. I am confident the company will weather any storm ahead of us.

It has been an incredibly tough year for the business and our people. The Board would like to express their sincere thanks to the staff and management for their resilience, tenacity and contribution throughout the year.

Liz Coutts Chair