

Chief Executive's Review



COVID-19 presented us with some major challenges this year, as it did for many New Zealand businesses.

Wayne Thompson
Interim Chief Executive

In our case, as a business on the border and a critical gateway for New Zealand's imports and exports, there have been some novel challenges that impacted generally on the business and personally on many of our people.

The disruption in the global supply chain has been felt right across our business. While the congestion at our container terminal was most prominent, the impact was felt on all cargo types. Car imports were hit by global supply chain issues and the relocation of Ministry for Primary Industries (MPI) inspections from Japan to Auckland, because of the pandemic. Coal volumes increased dramatically, because of lower hydro lake levels. There has been a surge in demand for supplies for the construction sector, because of the current building boom. For example cement volumes hit a record high (see page 11 for more information).

This surge in freight has put pressure on our people, and others who work for the many companies who work on the port and contribute to moving freight in and out of Auckland. Because many of these people work on or near ships, and potentially come into contact with international crew, they've had to adopt new ways of working to keep themselves safe and the border

secure. Some are having to have weekly or fortnightly COVID-19 tests, which for anyone who hasn't had one, isn't fun. I want to pass on my thanks to everyone in our company, our contractors and our suppliers for going the extra mile to keep freight moving.

We have experienced the tragic death of one of our people while at work. This should never happen, and we have had to look closely at the way we work and the way we deal with safety. To do this, we have been fortunate to have the support of our shareholder Auckland Council and the help of Construction Health and Safety New Zealand (CHASNZ), which reviewed our approach to safety and made recommendations on how to improve it. We accepted those recommendations and intend to implement them all by the end of this financial year. We are making good progress so far (see page 6 for more information).

Ports of Auckland has committed to develop a Māori Outcomes Framework that recognises the unique relationship between iwi of Tāmaki Makaurau and the port. Through developing the framework, we will identify opportunities to incorporate te ao Māori concepts into our day-to-day work and culture and set out how they can be drawn meaningfully into our work culture.

The framework will recognise the need to focus on supporting our staff to achieve balance in their hinengaro (mental and emotional), tinana (physical), whānau (family and social) and wairua (spiritual) health and culture, and will detail how te ao Māori concepts will reinforce the safety and wellbeing of every person who works at, or visits, Ports of Auckland.

We have also been completing our ground-breaking automation project. This complex project has been made more difficult by implementing it during



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a global pandemic. There have been successes – we have handled over 100 ships using the system – and setbacks – we had to pause automated operations in June to address a safety risk. We've used that pause to reset the project and it has now been restarted.

The revised, four-stage project implementation plan has clear targets for safety and performance that must be met before the project can progress to the next stage. Under this plan we can complete the project and go live by late March 2022. March is normally a quieter time of year but, because of the pandemic, 'normal' no longer exists. There could still be a high demand for imports, plus the export season will start to ramp up from then. We want to ensure there is no further disruption to the container supply chain, so we may choose to delay going live. A decision on timing will be made later in the project. Our current priority is supporting our customers – New Zealand importers and exporters – to get their products efficiently through the port (see page 8 for more information).

Alongside the big projects and challenges, we have had success in delivering some smaller – but vital – initiatives.

In May 2021, in partnership with bp, we secured a supply of low-sulphur fuel for shipping through Auckland. This is important because it helps ensure New Zealand can meet its international obligations under Annex VI of the International Convention for the Prevention of Pollution from Ships (MARPOL), by providing international and domestic

vessels calling New Zealand with MARPOL-compliant fuels.

We also successfully made the transition to a new vehicle booking system – Containerchain – at our seaport. This system is also used by Port of Tauranga and KiwiRail. We have moved to use it in response to demand from trucking companies for a standard approach to booking times and slots across the major logistics hubs in the upper North Island.

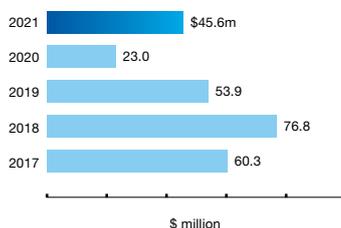
Operational update

Volumes for the year were mixed. The total port container volume, through the container terminal and multi-cargo wharves, was down 7.1% to 818,238 TEU, compared with 880,781 TEU in the previous corresponding period (pcp). However, at 6.666 million tonnes, bulk and breakbulk volumes were close to a record. Car volumes recovered, rising 9.2% to 236,260 units compared with 216,356 units the previous year. The cement volume hit a record 631,384 tonnes this year, up 10.5% on the pcp. The volumes of other cargo types through the multi-cargo wharves were also strong.

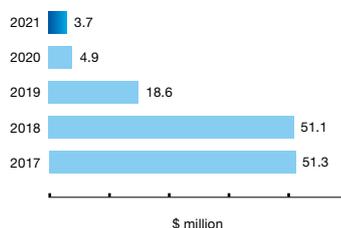
There were only 975 ship calls this financial year compared with 1,272 in the pcp. This 23.3% reduction reflects the loss of the cruise business and congestion in the container terminal.

Direct and indirect expenses were slightly lower this year, as an increase in corporate overheads was offset by a decrease in costs incurred during the initial COVID-19 response in 2020. There was a \$3.6m increase in depreciation as automation and

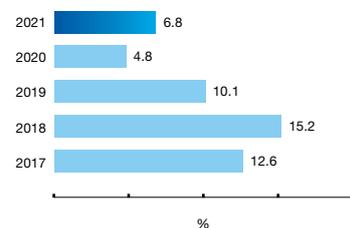
Net profit after tax



Ordinary dividends declared for the year



Return on equity (excluding revaluations)



other capacity enhancing assets (e.g. the cranes) were considered in operational use from April.

The underlying profit for the year was \$20.7 million, compared with \$30.0 million in the pcp. This was largely driven by the COVID-19 response, the absence of cruise ships and the capacity-throughput challenges in the container terminal. This was partly offset by an increase in multi-cargo revenue but, overall, revenue for the year was \$226.3 million, down \$5.1 million on the pcp.

The revaluation of land, buildings, wharves, and investment property occurred in June. There were investment-property gains of \$27.6 million, which were driven largely by the land owned at Wiri. These gains contributed to a statutory profit of \$45.6 million, up from \$23 million in the pcp.

Long term debt is \$475.9 million, which is \$10.8 million less than in June 2020.

Looking forward

The focus for this financial year is very much on steadying the ship: improving safety, completing automation, restoring our container terminal performance, and improving our returns.

Work on all these streams is well underway. We have put in place a new safety and wellbeing strategy, which includes work to implement all the CHASNZ report recommendations by 30 June 2022.

We're also working on improving staff engagement and our company culture. In October 2020, we undertook our first staff engagement survey with, it is fair to say,

mixed results. Creating a good company culture is a key foundation for any business. People want to work in a place where their contributions are valued, their wellbeing is looked after and where they can make a difference.

We have made a start on this by feeding back the results to all of our staff, so they know their views have been heard. We've set up a stevedoring engagement group, with representatives from day and night shifts, to dig into the key issues for our stevedoring staff. This group has been very helpful in identifying and resolving some small but important workplace issues. The feedback from staff to date is that this process has been positive, so we are looking to set up similar groups in other parts of the business.

The automation project has been reset and the first stage is underway. To progress to each of the following stages, the system must meet safety, reliability and performance targets. This time we will have on-the-ground support from the vendor, something which wasn't possible previously. This in-person support will be extremely helpful.

One of the reasons for congestion at the container terminal this year was a shortage of labour. The shortage was caused by multiple factors, including changes to the pattern of imports (a continuous peak) and a need to reduce maximum staff hours. These factors are expected to continue for the foreseeable future. We also expect long-term freight volumes to grow in line with Auckland's growth.

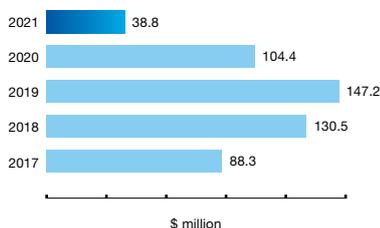
The only other major capital project underway is channel deepening. We received consent to deepen Auckland's shipping channel in August 2020 and hoped to start work on the project in 2021. Unfortunately, the consent was appealed and the appeal process has been slow. A lot of time has been taken up with mediation between the parties and a jurisdictional hearing, which was held in July 2021. The outcome of this hearing is due by October, after which a date for the appeal hearing can be set. At this stage it looks likely that work will not be able to start until 2022 at the earliest.

The channel deepening work is urgent. Auckland is the only port in the country which can't take the largest ships calling in New Zealand. We are increasingly finding that vessels with larger loads and deeper drafts are calling, leading to an increasing use of tidal windows and restricted loading and unloading times. This is not an ideal situation and we hope that the appeal can be resolved as soon as possible.

Thanks

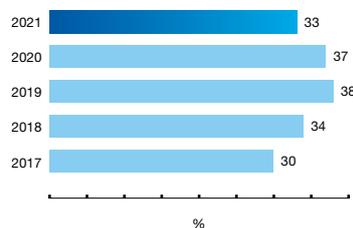
After a challenging year, I'd like to thank everyone who works at Ports of Auckland for their efforts. It has been tough, but we are making progress on the work we need to do to turn things around. There will continue to be challenges, not least because the pandemic is still having a significant impact worldwide, but I believe we have turned a corner. I look forward to working with you all over the coming year.

Capital expenditure



Capital expenditure is lower this period, because spending on major projects like automation is largely complete and other major projects, like channel deepening, have been deferred or delayed.

Interest-bearing debt to debt + equity



Revenue

