NAPIER PORT
Te Herenga Waka o Ahuriri

NAPIER PORT LOG SUPPLY CHAIN

September 2021

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THE WALL OF WOOD

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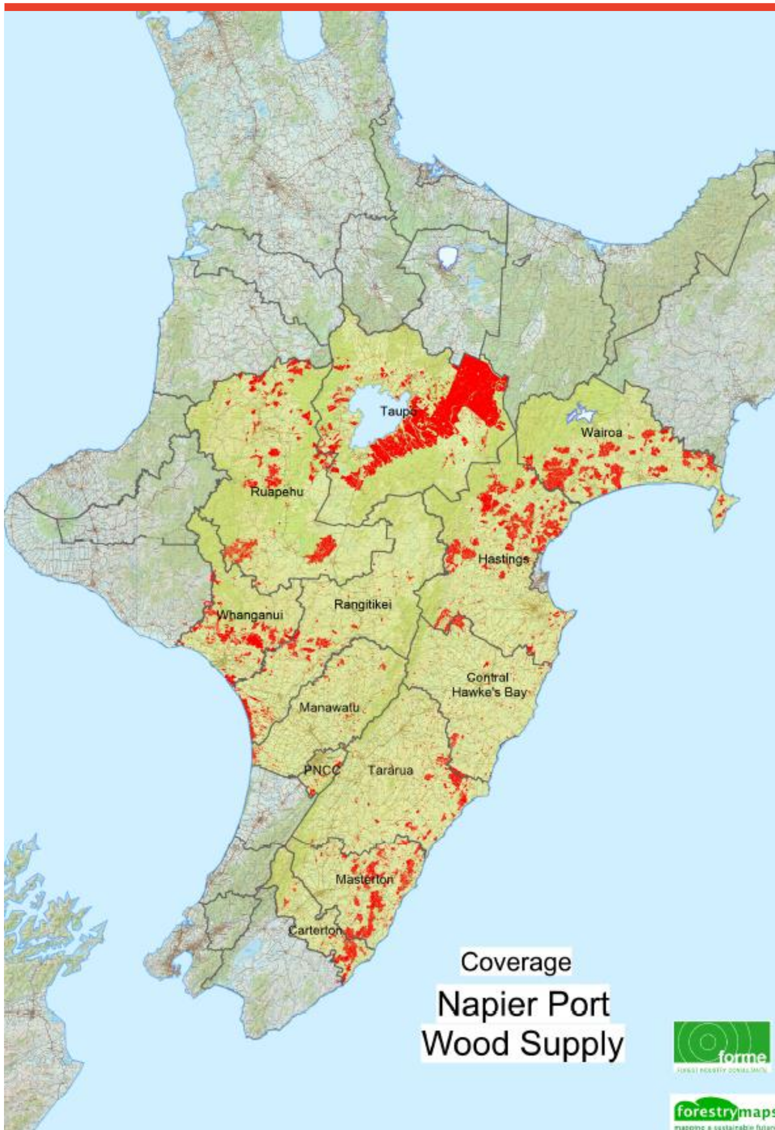
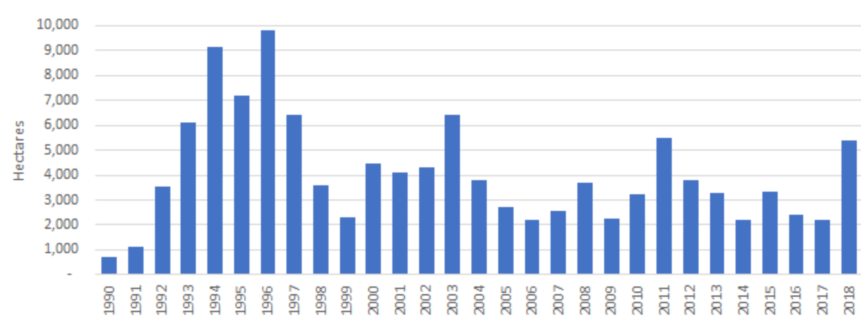


- Map shows forestry blocks in all regions contestable to Napier Port
- The catchment totals approx. 420,000 hectares of radiata pine plantings

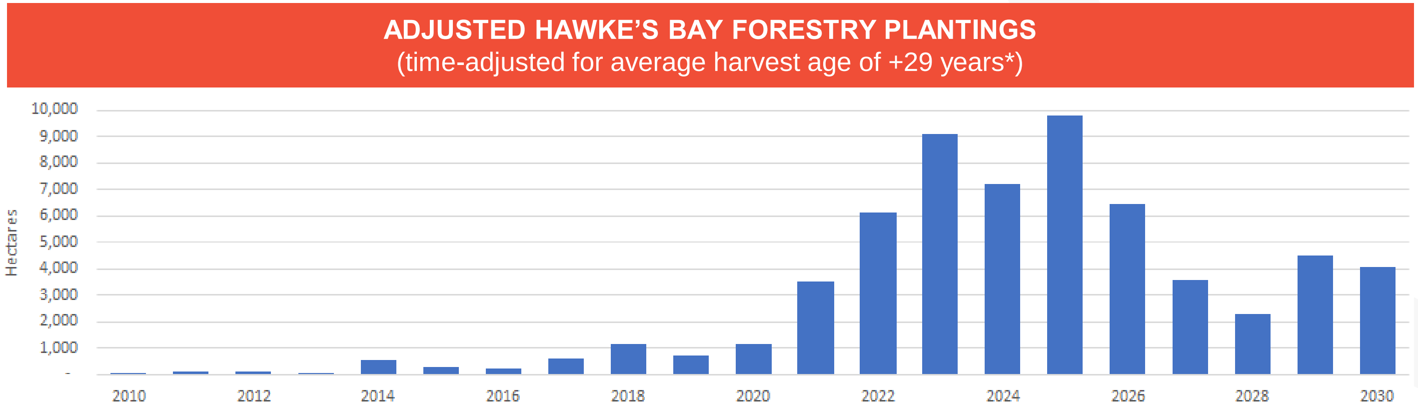
HAWKE'S BAY FORESTRY PLANTINGS



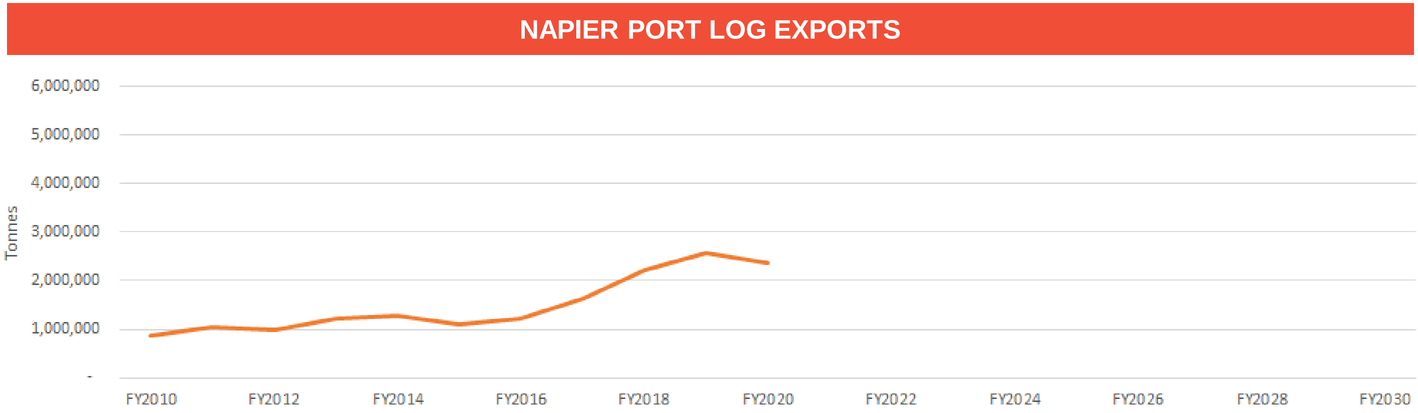
Source: Forme Forestry Industry Consultants

Map prepared for Napier Port in 2018 by Manawatu Aerial Photo Services and Forme Forest Industry Consultants

THE WALL OF WOOD



Significant plantings in Hawke's Bay in the 1990s are maturing.
This is expected to translate to higher export volumes to at least 2030.



* *Average harvest age of Radiata Pine in New Zealand over the last 5 years according to Forest Owners Association Facts & Figures 2019/20*

MARKETS

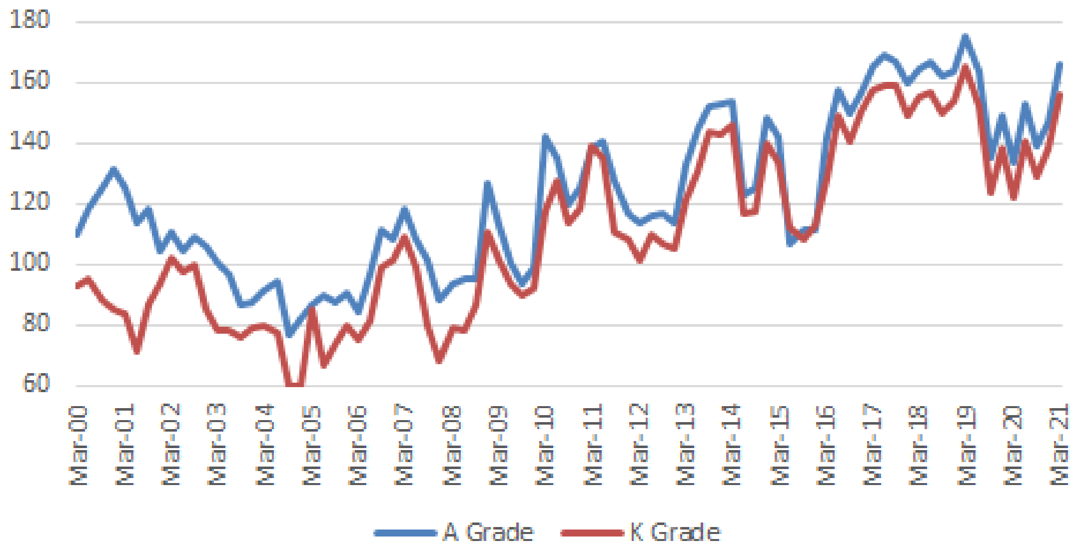
EXPORT MARKETS:

FY20 EXPORT LOG VOLUMES: BY DESTINATION

China 93%
India 5%
South Korea 2%

LOG EXPORT PRICING TREND:

EXPORT LOG PRICES
(NZD per JAS)



Source: Ministry for Primary Industries Manatû Ahu Matua

MARKETS

BULK SHIPPING RATES ARE AT MULTI-YEAR HIGHS:

Graph of BDI Index over time. Source: TradingEconomics.com

The Baltic Dry Index (BDI) is a composite of three sub-indices. It displays an index of the daily USD hire rates across 20 ocean shipping routes. Whilst most of the New Zealand log trade is shipped in handy size vessels, this segment is strongly influenced by the BDI (Source: PF Olsen, Wood Matters)

FOREIGN CURRENCY MARKETS:

Export transactions are typically denominated in USD. USD:CNY and NZD:USD are key foreign exchange rates affecting returns for NZ exporters

UNDERSTANDING COST AND OPPORTUNITY TO INFLUENCE

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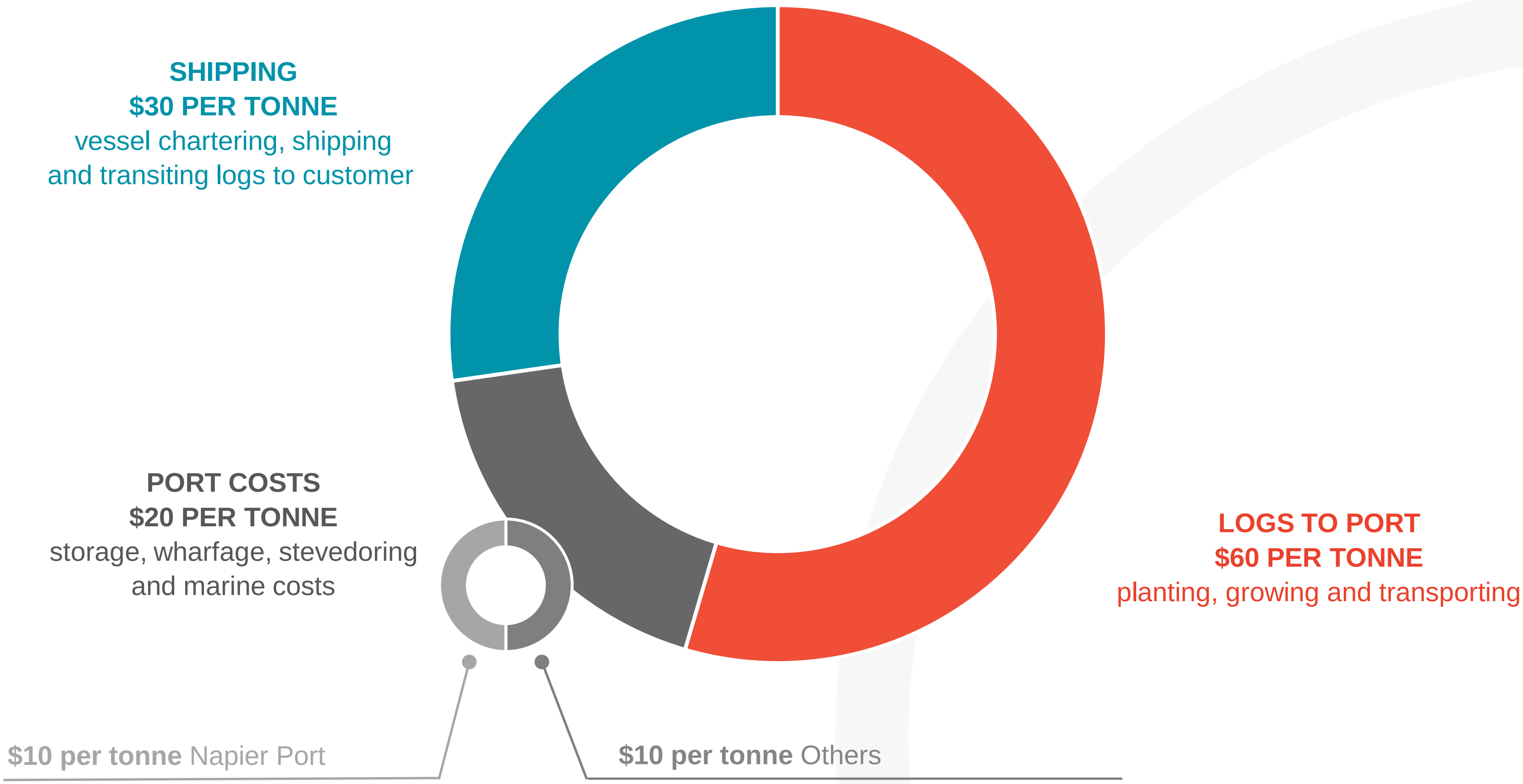
APPROXIMATE LOG EXPORT SUPPLY CHAIN COSTS*:



** Approximates based on exporter advice as at March 2021. Varies amongst exporters and source forests including market variations in costs e.g. vessel chartering rates.*

NAPIER PORT LOG EXPORTERS

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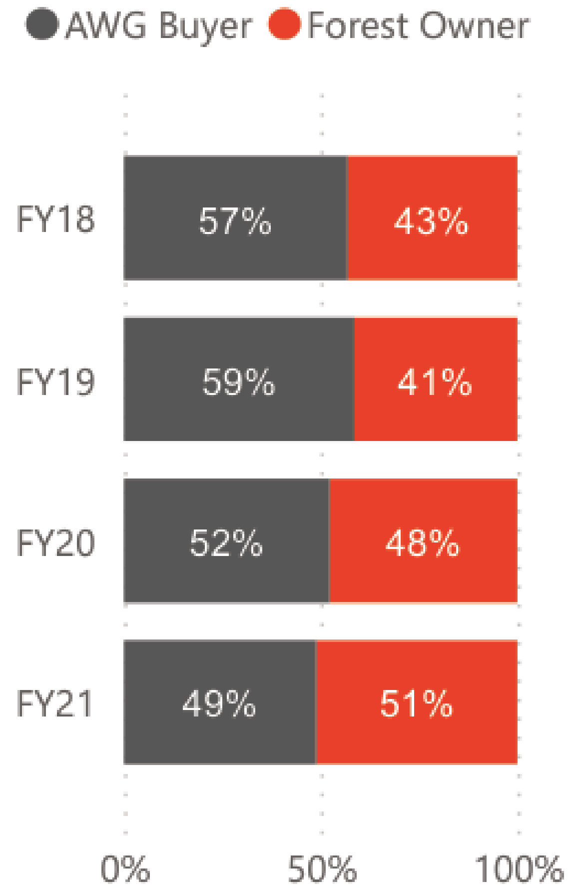
- Napier Port focus on forest owners, who generally provide more stable volumes during different market conditions
- Napier Port has a mix of seven log exporters
  - Three forest owners: PanPac Forest Products, Ernslaw One, AVA Timber (JV for Rayonier Matariki Forests and Hancock Forest Management)
  - Four At Wharf Gate (AWG) buyers / traders: Fortuna Forest Products, Pacific Forest Products, TPT Forests, China Forestry Group
- Napier Port uses a space allocation model to incentivise positive outcomes:
  - Driving throughput
  - Shipping programme
  - Stevedore productivity
  - Health & Safety performance
  - Environmental outcomes

% FOREST OWNER vs AWG BUYER, FY



LOG STEVEDORES AT NAPIER PORT

- Two stevedore and marshalling companies – ISO Limited and C3 limited are contracted directly by exporters
- At Napier Port, ISO currently have 60% share and C3 40% share

STEVEDORE CONSTRAINTS

- Productivity
  - Vessels can work a maximum of four gangs per shift.
    Average of 3.1 gangs deployed over the last three years
  - Productivity has been flat over this timeframe
- Difficulty of stevedores to obtain and retain sufficient skilled labour – extremely high annual turnover
  - Typically low skill base to start
  - Health and safety developing maturity
  - Labour rates are low for a 24/7 operation working outdoors in all weather
  - Transient workforce
  - High cost to train and competitive landscape for skills by other employers

    - Gaining qualifications such as Class 5, digger operators, health & safety

    - Move into other industries such as construction, transport, forestry

SPACE IS AT A PREMIUM ON PORT

- Limited storage land footprint on-port at 9.4 hectares currently (with some flexibility)
- Fumigation (Methyl Bromide) space intensive
- ISO have recently opened a site on Hyderabad Road (3 km from Napier Port) to add additional/overflow storage for their customers

HEALTH AND SAFETY

- Safety performance must be maintained in an environment of increasing volumes using the same land footprint
- Licence to operate in place with both stevedore companies gives Napier Port a contractual relationship, specifying conditions of access and safety requirements
- Regular health and safety meetings held with industry companies – stevedores, fumigators, and exporters
- Pre-vessel meetings held with all relevant stakeholders and PCBUs before each vessel

OPPORTUNITIES

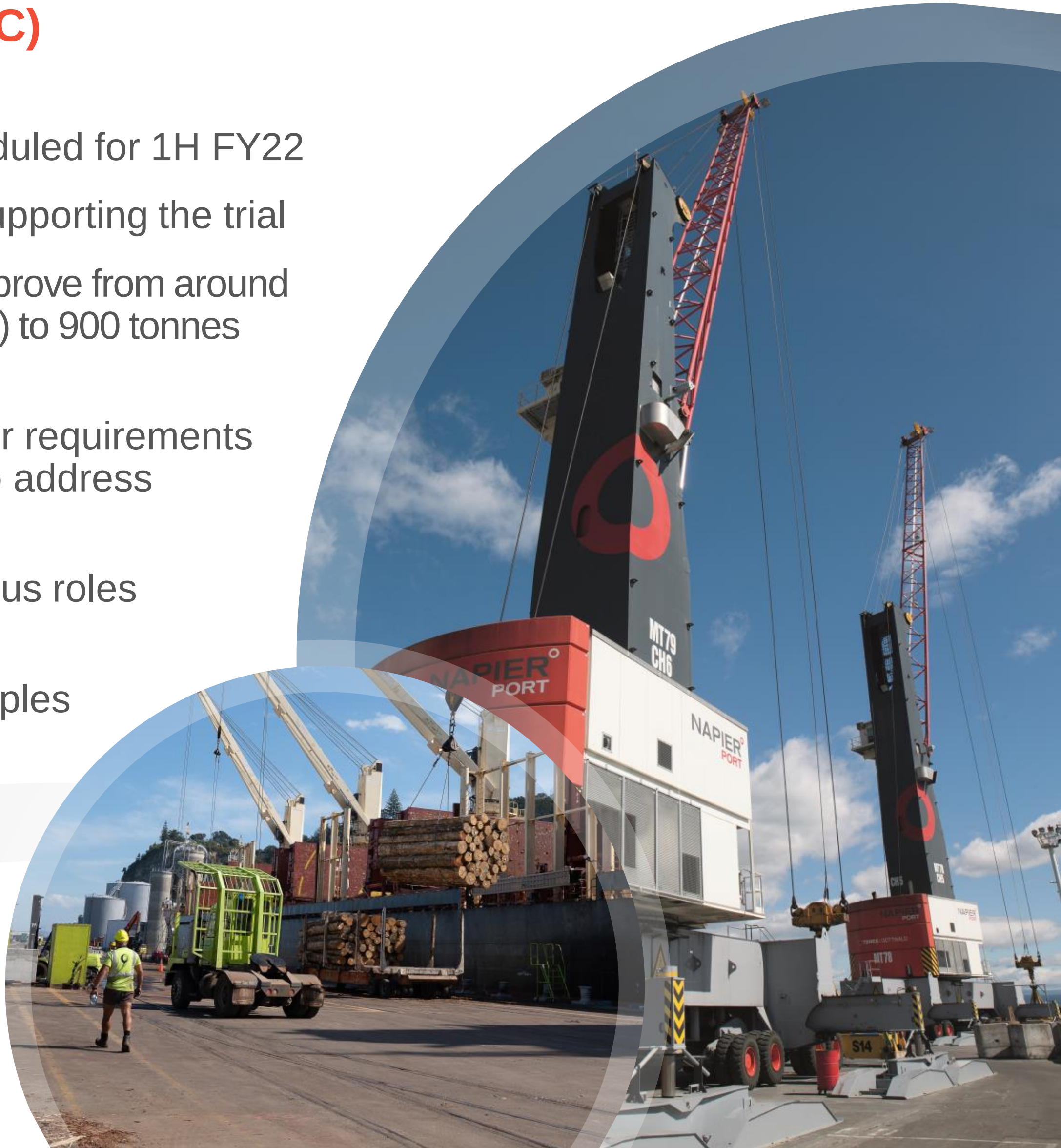
EXTEND REACH

- Landside logistic services to attract more volume to Napier Port
- Sources of additional volume are:
  - Wairoa rail
  - Central North Island rail
- Significant opportunity to expand these opportunities as constraints are addressed

OPPORTUNITIES

MOBILE HARBOUR CRANE (MHC) LOG LOADING TRIAL

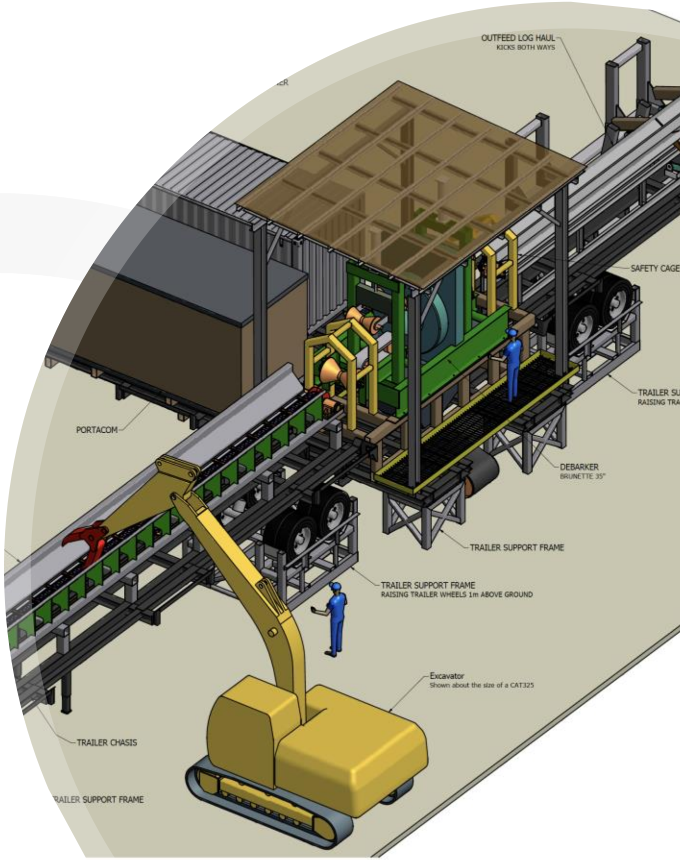
- Trial for loading logs with MHCs scheduled for 1H FY22
- Three exporters and one stevedore supporting the trial
- Productivity – vessel rate expected to improve from around 500 (approximately 160 tonnes per gang) to 900 tonnes per hour
- Labour – reduction in stevedore labour requirements (currently 10 people per shift) will help address current labour shortages
- Safety – eliminating the most dangerous roles will improve health and safety
- Initial capital investment in grabs/grapples
- Revenue based on volume loaded



OPPORTUNITIES

LOG DEBARKER

- Mobile debarking unit to be situated on Napier Port
- Alternative to Methyl Bromide fumigation[1] for phytosanitary treatment
  - Approx. 600,000 JAS p.a. currently fumigated
- Provides top deck cargo – Napier Port will remain a finishing port option
- Volume
  - Target 250,000 JAS p.a. initially
  - Approx. 400,000 JAS p.a. capacity
- Scalable
- Option for out of region new supply
- Subject to completing commercial agreements
- Estimate operational 1H FY22



1 - From January 2022, recapture technology must be used for fumigations under sheets and tarpaulins, with requirements for recapture increasing to 99% by 2035. *Source: Environmental Protection Authority decision dated 11 August 2021*

OPPORTUNITIES

6 WHARF

- Increases availability of both 4 Wharf and 5 Wharf for log loading
- 4 Wharf is currently restricted for log loading with wide beam container vessels on 5 Wharf
- New berth is important in the context of cruise ships returning and congestion in harbour
- Berth capacity will be less of a factor as log volumes grow

OTHER

- WPI square logs
  - New volume to Napier Port up to 4,000 cubic metres per month expected from FY22