

PORT OF TAURANGA LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2009

CHAIRMAN'S REPORT

Financial Performance

Given the parlous state of world financial markets over the past year, to be able to report a profit is pleasing and to be able to report an increase in profit, very pleasing indeed. The financial market collapse caused a commodity boom to turn to bust and for Port of Tauranga, meant considerable change to trading patterns with overcapacity, especially in container shipping.

Net profit after tax for the year ended 30 June 2009 was \$45.185 million – an increase of \$3.068 million or 7.3% on last year. Total operating revenue fell by 3.5% on last year to \$143.619 million, with container throughput down 4% to 546,521 TEUs and total trade decreasing to 13.458 million tonnes.

The Chief Executive's report will detail changes in cargoes but the positive highlight was a substantial increase in dairy and log exports.

The Company's balance sheet remains very strong, with a debt/debt plus equity ratio of 29.4% after payment of \$33.509 million in dividends and investment of \$38.533 million in capital expenditure. In the current climate, we are very pleased to retain a conservative balance sheet and to have bank facilities negotiated at very favourable rates prior to the current credit crisis and running through to December 2010. We have commenced discussions with our bankers and are confident of securing new debt facilities with effect from 30 June 2010.

Dividend

Directors have declared a final dividend of 18 cents per share, which on top of the interim dividend of nine cents brings the total for the year to 27 cents. Last year, the comparative figures were 16 cents final and nine cents interim. This year's total dividend is 8% higher than last year.

Industry Environment

New Zealand is a country of difficult terrain with a small population so internal transport infrastructure will always be a high cost burden. Prioritising investment on economically important routes is therefore more important to New Zealand than most countries. Ports are a critical part of the transport infrastructure and especially so given the high volume of New Zealand's imports and exports per capita, our distance from markets and the fact that our major exports are relatively low value per unit of weight. Port efficiency and the contribution to or burden they impose on infrastructure – be it internal to New Zealand or shipping costs – is important.

It is for these reasons that this Company continues to make a public stand on the issue of port rationalisation. Newer and larger container ships want to begin servicing New Zealand but require the expenditure of hundreds of millions of dollars on the infrastructure to accommodate them. That cost and the requirements of these vessels to make at most two New Zealand port calls and to discharge and load big tonnages quickly means that New Zealand cannot afford or service more than two such ports. A port hierarchy must develop where other ports feed in cargoes to the two primary ports by road, rail and sea.

The prize for shippers in doing this is substantially lower costs. If port owners don't move, falling revenues and market forces will dictate change. The recent move by Fonterra to start consolidating their exports on fewer ports is part of that process.

Directors

Messrs Bill Baylis and Bill Capamagian retire at the Annual Meeting in accordance with the Company's constitution and offer themselves for re-election.

Staff

In last years Chairman's report, I said "*Another praiseworthy effort from our staff. In the face of considerable global financial turmoil, they have, with the minimum of fuss, kept their eye on the key drivers of the business, providing a cost efficient and customer focussed service that continues to attract profitable new business.*"

I couldn't say it better for the year under review, except to add that it has been even more difficult.

Management continue to exercise tight control on operating costs while actively pursuing profitable new business opportunities.

Future

The economic climate of 2010 remains uncertain and likely to bring considerable challenges. Given our strong balance sheet, operating efficiency and the Port's diverse cargoes, we are well-placed to ride out the uncertain short term and participate strongly in any export led recovery to the economy.

Looking forward, the growth in vessel size, combined with market concentration among shipping lines, means that fewer large vessels will call at fewer ports. This will drive specialisation into hub and spoke feeder ports and makes port rationalisation even more urgent.

Port of Tauranga is New Zealand's logical Port for the Future. We have the land, much of the infrastructure, balance sheet capacity and can accommodate larger vessels at a much lower incremental cost than other New Zealand ports.

John Parker

CHAIRMAN