

Port of Tauranga Limited Annual Meeting 22 October 2009

John Parker, Chairman

Good afternoon Ladies and Gentlemen

A great result

In the Annual Report, I said that 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.

In retrospect, calling our \$45 million after tax earnings result “pleasing”, especially in the current environment, was rather faint praise for a result that took a lot of effort for all at Port of Tauranga. To achieve a 7.3% increase in earnings on flat trade, and with operating revenue reducing 3.5%, is a result that we are actually very proud of.

Dividend up

It is a result that has allowed Directors to increase total dividends paid to shareholders from 25 cents in 2008 (and that was a record) by another 8% to 27 cents per share.

Strong balance sheet and low cost of debt

Our particularly strong balance sheet has seen us weather the worst of the credit crisis and our debt to debt plus equity ratio remains conservative at 29.4%. Our current debt is \$207.5 million and we have a facility to 31 December 2010 for \$225 million plus a \$35 million facility to 31 December 2009. Our current cost of debt is 5.05%, which, according to Asia Pacific Risk Management, is the second lowest corporate cost in New Zealand.

Debt rollover is an issue for many corporates and we have commenced discussions with our bankers and are confident of renewing our debt facilities well in advance of expiry. Our very strong cash flows are a real strength. This is best illustrated by the fact that we spent \$73 million in capex and \$77.7 million in dividends over the last two years - a total cash outflow of \$150.7 million - with net debt only increasing by \$27 million over the period.



Next year

At our Annual Meeting last year, I forecast that imports would fall, but that the bulk of our exports would be unlikely to be substantially affected. The fact that our trade volumes held up so well is testament to the diverse mix of cargoes the Port now handles and demonstrates the resilience of the business.

We really don't expect trading conditions in 2010 to be better, but on balance, we see no current reason to alter our prediction of a financial result similar to last year's. We will continue to keep a very tight hold on costs to the extent that Management and Directors have volunteered and agreed to hold salaries and directors' fees at last year's levels.

Mark will comment will comment on our performance for the first quarter of this year in his address.

Port rationalisation

You may well think that we at Port of Tauranga harp on a bit on the subject of port rationalisation. I make no excuse for doing so again today. It is a matter critical to all New Zealanders.

There has been a huge increase in container ship building over the past decade, driven by increases in global trade and the efficiencies of the newer, larger vessels whose costs per container are lower by some 30%. World trade diminished substantially with the collapse of financial markets and there is now a surplus of container ships with an estimated 20% of container capacity likely to be idle by the end of 2009.

The problem is further exacerbated, at least for ship owners, because ships currently being built will increase capacity by an estimated 8% in 2009 and 10% in 2010. Without a very big turnaround in global trade in 2010 (which I'd suggest is unlikely), the surplus of container vessels could well double.

The move to newer and bigger ships was happening anyway but is accelerated by the surplus of tonnage and the obvious desire of ship owners to idle their older, smaller and less efficient container ships.

These things simply make port rationalisation more urgent. The need already existed for other reasons. New Zealand simply has too many ports, most with negative free cash flow while at

the same time they are increasing capital expenditure to try and keep their infrastructure up to date. I don't suggest any of New Zealand's 13 commercial ports would, or should, vanish but certainly only two should be the hub ports for the vast bulk of export and import containers with the balance sending their containers to the two hub ports, largely by coastal shipping and rail.

Currently, no New Zealand port (despite the occasional and deluded denial) can handle the larger vessels already wishing to enter the New Zealand trade. Until they can, the savings cannot be realised. And don't underestimate the savings. Fonterra has estimated annual saving to New Zealand of \$2 billion to \$3 billion per annum should larger container ships be introduced to our shores.

But it's not just the physical restraints of lack of channel depths, lack of berth size, lack of sufficient container cranes and straddle carriers and lack of the port land to handle large loads and discharges that are holding back progress. As I've mentioned, most ports have negative free cash flow and are being subsidised, in some cases very heavily, by their long suffering rate payers so can't afford the required investment. But even if they could, there is no possibility of more than two hub ports making the investment economically sensible. And these big vessels, to realise the economies they offer, will only load at one or possibly two ports in New Zealand

In a rational world, the economic ports would buy out the weak - or at least the weak would go out of the container business because the returns were so poor. Unfortunately, the ports are in many cases totally controlled by local government owners whose drivers are not necessarily economic and the ratepayer owners, even if they understand the costs to them, feel powerless to intervene. Unlike you, with shares in a listed company, they've no chance to sell their shares and invest their money in something a lot more sensible.

The huge savings are tantalisingly within reach. Producers, consumers, exporters and importers would benefit substantially. The cost of national infrastructure that taxpayers bear in road and rail would also decrease.

Some observers want Government intervention: that is probably neither politically sensible nor necessary. A simple nudge or two could help a process that in fairness has already started with merger discussions between Lyttelton and Otago ports after our abortive attempt with Auckland. Simply insisting that ports meet the criteria laid out in the Port Companies' Act whereby ports are required to operate "a successful business" would give some focus. Not achieving a cost of

capital could hardly be defined as successful! Insisting that where local bodies own all or big slices of ports, they have a holding company for the port investment with a majority of genuinely independent directors would be an even better nudge.

This port is the obvious North Island hub port. We have the locality, the space and the surrounding infrastructure, and can fund a sensible investment. Mark Cairns will elaborate on our preparations for bigger ships. They're going to come.

A great team

The confidence that your Directors have in Mark Cairns and his team has been well borne out over this last year. They have achieved a result that would look good in any year and looks very special in a year that for most companies was characterised by poor financial results. Directors don't underrate the effort that requires and nor should you.

Directors

Directors have had to work well together over a tough year and have certainly earned their keep. The strength and unity of the board makes it a pleasure for me as Chairman and I thank them for their efforts.

Two directors - Bill Capamagian and Bill Baylis - retire by rotation and offer themselves for re-election. Both directors have the Board's full support.

Shareholders

And to you, the owners of this Company, thank you again for your support. We think you're investing in the right company: 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 any other New Zealand port.

John Parker

CHAIRMAN