

Port of Tauranga Limited Annual Meeting 27 October 2011

John Parker, Chairman

Ladies and Gentlemen

I cannot address the usual business of this meeting without raising the issue of the grounding of the container vessel *Rena* on Astrolabe reef, within eyesight of one of New Zealand's most pristine environments. The sight of oiled beaches and dead and injured sea life is one that none of us ever wanted to see, least of all in our own beautiful backyard.

People are saying that it is an unimaginable event or an unthinkable event but of course it is neither. Thinking people can imagine and think about such events and this Company gives extensive thought and does a lot of planning for situations that we can envisage and that we can prevent or mitigate, whether such incidents are within the port or harbour or indeed, within our control. We may not be able to control ships out to sea or well outside our jurisdiction but we certainly care deeply when incidents like the Rena affects the environment, our community, the reputation of shipping and New Zealand's image.

We are doing everything possible to assist with the emergency response and will be giving a lot of thought to what else we might have done, what we might learn for the future and what we can possibly do to ensure it never happens again.

Mark will address some more detail on the grounding. We have tried to anticipate the questions you want answered and are in our power to answer. We will of course answer your questions on the subject if we can.

Now to 2011. Port of Tauranga has had another very good year. More properly, I should talk about the Port of Tauranga Group, as our associates and subsidiaries now provide such an important portion of our results, contributing 21.4% of the Group's profits in 2011.

Our long term strategy of investing in comparable businesses, diversifying cargoes and vertically integrating the supply chain continues to deliver benefits for Port of Tauranga, the Bay of Plenty region and New Zealand as a whole.

Leading through Innovation and Commitment





Group net profit has grown by 17.2%, driven by strong growth across most cargoes, combined with a continued focus on containing costs in our business.

Underlying Net Profit After Tax for the year ended 30 June was \$57.9 million, up from last year's \$49.4 million. Underlying Net Profit After Tax excludes one off adjustments as a result of the Government's change to remove depreciation on most buildings. Despite the suggestion of some commentators, most companies are reporting underlying profits not to hide anything - it's just that to not make the adjustment gives extremely confusing messages to investors. Note that Port of Tauranga's underlying net profit is <u>lower</u> than the usual Net Profit After Tax.

EBITDA was up 16.6% to \$109 million, demonstrating the strong cash flows of the Group.

Pleasingly, our net debt has decreased \$12.4 million to \$186.1 million, after paying \$40 million in dividends and \$21.9 million in capital expenditure. Our debt to debt plus equity ratio is at 29.3%, which we feel is prudent in the continuing uncertain economic environment and given our forward capital programme that Mark will detail.

We've long pursued a diversification strategy that has served us well in these uncertain times. We are now far from being a bulk and largely log-dependent port. In fact, our containerised cargoes now represent 40.5% of the total tonnes handled by the Port.

Earnings growth has come from across the Group, with solid performances reported by our Associate Companies C3 Limited and Northport Limited, as well as Tapper Transport that we acquired last year.

Both C3 and Northport have benefited from the growth in forestry exports. Log export volumes through Northport have increased by 120% in the last three years, while forestry volumes handled by C3 increased 29% this past year.

C3 is now taking its expertise and experience into new markets. It already operates in 13 New Zealand ports and is now expanding into Australia.

Mark will talk in some more detail about the trends in various cargoes and the increasing use of Tauranga as a New Zealand hub port.



We were pleased to be able to declare a final dividend of 21 cents per share, on top of the interim dividend, which brought the year's total to 31 cents per share – an increase of 6.9% on last year.

I would like to thank the Directors for their continued contributions. This is a good Board with a strong sense of direction but with enough individuality to ensure robust debate.

Bill Capamagian, who represented you on the Board for 16 years, retired in December. We will miss Bill's good sense and wealth of experience. Bill is a practical bloke, can smell nonsense from afar, has a solid financial background and knows this region very well indeed. Thank you, Bill. You can be very proud of those 16 years.

Keith Tempest was appointed by the Board to fill the vacancy created by Bill Capamagian's retirement and now offers himself for election at today's meeting. Keith was the Chief Executive of TrustPower for eight years, retiring in 2009. He is currently a Director of NZ Bus Limited, Crown Fibre Holdings, Transpower Limited and UltraFast Broadband Limited.

In accordance with the Company's constitution, David Pilkington and I retire by rotation and offer ourselves for re-election today.

As a Board, we are grateful for the great management team in charge of this Company. It is very small in comparison with many similar sized businesses. The five senior managers, all very competent individuals, work well as an integrated team with collective responsibility.

It is a model replicated throughout the organisation. Port of Tauranga staff work co-operatively and often multi-task. It's efficient, provides a stimulating work environment and – as a consequence – staff turnover is very low.

The entire team has performed very well in a year of considerable change and challenge, and I thank them for their efforts.

As for the environment in which we operate, there are a couple of trends to note. Importers and exporters are increasingly making moves towards greater control and efficiency in their supply chains through integration. This trend has long been recognised by Port of Tauranga, which is already the most vertically integrated port in New Zealand with our investments in other ports and related companies. We are also the only New Zealand port to promote competition within our container terminal.

Leading through Innovation and Commitment





Over the past year, we have further developed our freight village at MetroPort Auckland with the addition of a new freight consolidation and warehousing facility, MetroPack. This joint venture with C3 and Tapper Transport is delivering immediate efficiency benefits to our customers.

It's important to note that Port of Tauranga is an essential infrastructure provider, which requires us as your Board to make decisions with a view to the future. We must think about what the Port may need to provide in five years, in a decade and even 50 years' time.

For that reason, the Board supports an ongoing capital expenditure programme, which will see significant investment over the next few years to cater for expected growth. Much of this investment will be at the Sulphur Point Container Terminal. The expansion will really set it up for the coming decade when we will see larger ships visiting more frequently.

The works include wharf extensions, the purchase of a new crane and the hopefully upon achieving resource consent approvals, the dredging of our shipping channels and berths to handle these larger vessels.

I said earlier that we have very low debt at under 30%. We will increase that debt with the investments I've outlined but certainly we will only invest with the objective of more than covering our cost of funds. Some of our expansion requires "lumpy" investments. For example, a crane is very expensive and may not cover its annual costs in its first year, but we believe that despite a heavy investment programme and an uncertain economic environment, we will show earnings growth in the coming year.

We see this investment as vital to Tauranga continuing to be chosen as the North Island's hub port and New Zealand's Port for the Future.

Thank you again for your support. We will continue to endeavour to look after your investment through prudent growth.

John Parker **CHAIRMAN**





