PORT OF TAURANGA

Port of Tauranga Limited Annual Meeting
19 October 2017

David Pilkington, Chairman

As your Chairman, I am honoured to present Port of Tauranga's performance over the past year.

It was a monumental 12 months. We broke all previous records and passed the milestone of one million TEUs - the first New Zealand port to do so.

We led Australasia in container crane productivity as container throughput increased by 13.8%.

And we produced a record Net Profit After Tax of $83.4 million, a 7.9% increase.

The big ships started calling on a regular basis following the successful completion of our dredging project - the culmination of our $350 million capital expansion programme.

We welcomed new services and new vessels, invested in landside capacity and increased rail connectivity.

We are officially New Zealand's largest, fastest growing and most productive port.

Our Chief Executive, Mark Cairns, will talk to you shortly about our operational highlights for the year, but first let me summarise the financial results.

Revenue increased 4.2% to $255.9 million, while EBITDA improved by 6.4% to $152.4 million.

Our associate companies also had a good year. Coda Group had excellent results following its opening of one of the country's largest intermodal freight hubs in Auckland.

Our South Island investments – PrimePort Timaru and Timaru Container Terminal – had another solid year, with PrimePort surpassing 1.5 million tonnes in bulk cargoes (a 13% increase). The terminal reached a new record in container numbers.

At Northport, cargo increased 9% in volume and regular container services began with containerised bulk cement exports.

Quality Marshalling continues to secure new contracts in niche cargo handling and has recently taken over the maintenance workshop at the Tauranga Container Terminal.

We successfully completed a five-for-one share split a year ago, and it has had a positive effect on liquidity. Daily share trades have increased by 45% and the total number of shareholders has increased 14%.

Ordinary dividends for the year total 11.2 cents per share, a 5.7% increase on the previous year.

We announced the second of a series of special dividends expected to return up to $140 million to shareholders over four years – while retaining our conservatively geared balance sheet.

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In recent times, there has been public comment suggesting that the Port should do more to benefit the community. It is evident from these comments that there is poor understanding of what currently flows back to the community from the very successful public private ownership model that has been adopted.

The benefits to Bay of Plenty ratepayers are significant. The Bay of Plenty Regional Council's investment arm, Quayside Holdings, owns 54.14% of the Company's shares.

Since listing in 1992, the market value of Bay of Plenty Regional Council's shareholding has grown from $43 million to approximately $1.65 billion today and Port of Tauranga has paid in excess of $650 million in dividends to Quayside over this period. To put this into context, without the contribution from the Port the general rate portion charged to all ratepayers would need to more than double.

On top of ordinary and special dividends, Quayside also established a $200 million infrastructure fund in 2008 through a Perpetual Preference Share issue, utilising dividends paid by Port of Tauranga to pay fully imputed dividends to Perpetual Preference shareholders.

This fund is targeted at regional infrastructure and community projects around the wider region. Examples of several community projects that have benefitted are $15 million towards the shared tertiary campus in Tauranga (and you will see from the construction cranes on the Tauranga skyline that work has already commenced on this) and $5 million towards the new Tauranga Marine Precinct. Other projects earmarked for funding include; $2.5 million towards Scion's Innovation Park in Rotorua, and $20 million towards the Opotoki Harbour Transformation project.

While the previous comments highlight the financial benefits that flow through to you as shareholders and to the general public through the council shareholding, we are all too aware that growth and success carries with it additional responsibilities with regard to our environmental impact and ensuring future sustainability. We are stepping up our activity in these areas focussing on increasing our compliance monitoring and taking further steps to reduce our environmental footprint impact. Mark will touch on some of these later.

I would like to thank my fellow Directors for their collective contributions this year. In particular, I would like to acknowledge two of our longest standing Board members who will be standing down following the Annual Meeting.

Michael Smith has been a Quayside nominee director since 3 August 2001. Michael has made an excellent contribution over what has been a sustained period of growth and development. Michael's sharp legal trained mind and strong local affinity with the Bay of Plenty area will be missed.

Bill Baylis was reappointed to the Board at last year's Annual Meeting at which time I advised that we had bent Bill's arm up his back to extend his term but that he would likely resign before the end of a full term. Bill has now advised me he will step down following this Annual Meeting. Bill's contribution ranges back over the last eleven and a half years since his appointment in February 2006. He has bought his considerable commercial experience both as Chair of Audit and as a strong contributor to general Board debates.

At a time when governance best practice is advocating finite terms for directors not exceeding nine years, I am grateful that the Company has been able to benefit from the sustained and exceptional contributions of both Michael and Bill and I invite you to join me in thanking them.

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I would also like to take the opportunity to thank not only Mark and his executive team but also the total staff and contracted partners who collectively have delivered an exceptional period of growth culminating in the results of the last 12 months.

Looking to the future, there continues to be real and rumoured merger and acquisition activity in the shipping line sector – CMA CGM's acquisition of APL, and more recently, a majority shareholding in Sofrana Lines, and also Maersk's acquisition of Hamburg Sud being recent examples.

We strongly believe that the move to larger vessels will only be accelerated, rather than hindered, by any further restructuring.

We are extremely gratified by the almost instantaneous pay off from our expansion programme of the past six years. We invested with the knowledge that bigger ships offer significant benefits to importers and exporters as well as the environment.

We needed the participation and passion of multiple partners in our endeavours. We had to make rational investments in inland cargo consolidation points, transport connections and equipment. We secured long-term freight agreements with key shippers.

Our results for financial year 2017 were impressive, but we are far from reaching capacity and still have considerable scope to expand within our existing footprint.

The past has been satisfying but the future continues to look exciting and we are well placed to meet whatever challenges come our way!

I will now hand over to Mark to provide you with some more detail on the year.

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