

CHIEF EXECUTIVE'S REVIEW

As your Chief Executive, I am proud to report on another solid Company performance for the year, against a backdrop of negative economic headlines.

The business environment has remained intensely competitive and the Company has retained its market leadership position as confirmed by a number of measures: trade volume, productivity and profitability. The latest Statistics New Zealand data confirms Port of Tauranga as New Zealand's largest port, with our market share increasing further, where we now handle some 56% more international cargo than any other port (and 236% more international exports).

The Chairman has commented on the financial performance of the Company. The 7% increase in earnings on reduced trade and revenue is a very satisfactory result in the current financial climate. This increase in earnings can be attributed to: a general reduction in costs across the board; improvement in dairy and log exports; increased property income from the additional 13.7 hectares of land purchased over the last 17 months; and lower interest costs and a lower corporate tax rate.

Operations

Total trade for the year was down slightly at 13.458 million tonnes – a decrease of 66,346 tonnes (or 0.5%) on the previous year. Noteworthy variances in trade were as follows: log exports increasing 27%; dairy exports increasing 24%; meat exports increasing 17%; and coal imports increasing 68% (off a low FY08 base). Negative variances included: processed forestry exports decreasing 5%; kiwifruit exports decreasing 4%; palm kernel and grain imports decreasing 10%; steel exports decreasing 6%; oil imports decreasing 6%; and fertiliser base imports decreasing 23%.

Containers

With the drop-off in imports associated with the recession, container volumes decreased 6% during the period. Over the last ten years, container throughput has compounded at an average growth rate of 19.2% per annum.

The Chairman has mentioned the Organisation for Economic Co-operation and Development (OECD) report highlighting the cost disadvantages that our importers and exporters face. In 2006, New Zealand's level of labour productivity was ranked 22nd out of 30 in the OECD. The tyranny of distance is something that port companies must strive to overcome through boosting productivity both within the port gates and also with efficient intermodal connections outside the port gate. We are proud to have increased the Company's already high level of productivity in the container terminal to an average net crane rate of 33.8 moves per hour (as measured by the Australian Productivity Commission). Recent independent benchmarking by Rockpoint Corporate Finance shows the Port to be some 25% more productive than any other Australasian port. Following our recent 1.3 hectare expansion to the terminal pavement area, we have seen a further 4% improvement over the second half of the financial year, where our net crane rate has averaged 35.3 moves per hour. Our productive capacity will be further enhanced following the recent commissioning of our fifth Liebherr gantry crane in July this year.

The Chairman has already touched on port reform in New Zealand and one strong driver of reform going forward will be the rapidly increasing size of vessels and the cascading of larger container vessels into our waters. We note Fonterra's recent calls for New Zealand to ready itself for container vessels in the 6,000 to 7,000 TEU (twenty foot equivalent unit) range, as soon as practical. On that note, we have lodged our resource consent application to be able to widen and dredge our harbour channels and sitting basins to provide for 14.5 metres draught (all tides). Once these resource consents are secured, dredging could be initiated in a timely manner, as and when required by market demand.

We have significant capacity for future growth without the need for expensive high stacking gantry systems or further reclamation. Our costs to cater for these larger container vessels are lower than other ports and we have sufficient balance sheet capacity to fund these projects.

Road and Rail

Port of Tauranga enjoys excellent road and rail links, with a significant additional route capacity available in rail.

The \$250 million HarbourLink roading project is on track to be completed earlier than scheduled and will be opened before the end of the year. We also welcome the Minister of Transport's recent announcement of a tolling proposal that could see the fast-tracking of the Tauranga Eastern Arterial Project, with construction commencing as early as next year. This arterial will be New Zealand's largest four lane roading project and the completion of this vital link will reduce freight costs and provide further supply chain productivity improvements for our importers and exporters – the tradeable portion of New Zealand's economy. As an example, the average travel time savings on this new link of 24 minutes (return trip) could see trucks completing four journeys a day to the port instead of the current three.

Rail continues to be an integral part of the Port of Tauranga's business model, with approximately 40% of all cargo moving into and out of the port by rail. We are working with KiwiRail to increase capacity and enhance service levels on the MetroPort Auckland rail operation. The recent introduction of 60 new generation (IM) wagons, and the construction of three passing loop extensions doubling the route capacity on the Tauranga to Hamilton line are tangible examples of this enduring business partnership. These new IM type wagons can take the equivalent of three TEUs whereas in the past, the older UK wagons could only carry two TEUs. The trains previously carried 94 TEUs and the new wagons have seen this increase to 106 TEUs per train.

Land

We have acquired a further 13.7 hectares of land over the last 17 months which now brings our total strategic land holdings to 185 hectares (72 hectares for the container terminal alone), further future-proofing our capacity to provide for continued growth in bulk as well as containerised cargoes.

Associate Companies

We had a stronger contribution from Associate Companies with income up 20% or \$0.85 million on last year.

Northport Limited's earnings were up 52% or \$1.770 million on last year. We continue to regard Northport as a key strategic asset, anticipating long-term growth and we welcome the commencement of the designation process for the Marsden Point rail spur line.

Earnings for C3 Limited (previously Toll Owens Limited) were up slightly at 1% or \$0.034 million on last year. Both Northport Limited and C3 Limited are well positioned to participate in increased forestry exports.

MetroBox Auckland Limited, which operates a container handling operation at MetroPort, has returned to a modest profitability over the last two years and meets the Group's strategic objective of developing a "freight village" in South Auckland.

Safety

Our commitment to workplace safety is a daily practice at the Port and I am pleased to report another strong improvement in safety performance with the Company incurring only one lost time injury for the year, reducing our Lost Time Injury Frequency Rate (LTIFR) by 72% to 3.5 (per million hours exposure). This is still considered one accident too many, but in our hazardous working environment, this is a significant achievement and excellent progress towards our goal of having an accident-free workplace.

We are also pleased that Accident Compensation Corporation (ACC) has ranked the Port of Tauranga as the best performing port in New Zealand in terms of claims history, which we believe is testament to the Port-wide Users' Health and Safety Forum.

Staff

Most Chief Executives would say the strength of an organisation is in its people. Our Company continues to rely on the accumulated expertise of a long-serving complement of staff and I consider that I am privileged to lead a special team.

Low staff turnover over many years has resulted in a very strong task-focussed culture which drives both productivity and the innovation, which are the Company's hallmarks. Our staff service profile is worth highlighting – there would not be many companies who could boast such a large number of loyal staff. A third of our staff has had more than 20 years' service, 10% have in excess of 30 years' service, and two individuals have even been with the Company for more than 40 years. This provides a great resource to pass on the knowledge and experience to our bright, young new staff.

Staff and management work closely together to an extent unusual in a company of this size.

Sustainability

The Company continues to strive to build strong enduring relationships with customers, stakeholders, shareholders, staff and the community. You will find familiar information, appropriately updated in the sustainability section of this report.

The Future

Port of Tauranga remains committed to treating every customer as a valued partner with whom it works to find shipping solutions that are efficient, innovative, and profitable for the importer/exporter and the Port Company.

The Company's positioning strategies have insulated the Company to a degree and our increasingly diverse trade mix is relatively defensive. On that note, it is pleasing to see a strong increase in forestry exports over the last six months, with sustained demand from China. MAF have recently published some excellent forecasting on Central North Island wood availability, based on a mixture of assumptions: large-scale forest owners harvest intentions; small-scale forest owners harvest by age class; and yields by forest type.¹ The key takeouts from this analysis suggest it is time to start planning to provide port infrastructure to handle annual export volumes of five million tonnes over the medium term. This has been confirmed in recent discussions with our forestry exporter customers.

As New Zealand's largest port, it is our intention to retain that position and to grow accordingly. We have secured ample land holdings to be able to capitalise on our natural geographic potential. The road and rail infrastructure necessary to support that growth is being put into place. Our business fundamentals remain sound and our relative competitive advantages are strengthening – the Company is well poised to be New Zealand's Port for the Future.

Whilst the economy looks to have found a floor and many positive signs are emerging, there remains significant uncertainty to the outlook and speed/shape of any recovery. In particular, the persistently strong New Zealand dollar drags on the economic outlook, with the dollar having risen more than 35% since March. It remains difficult to provide guidance for the coming year, but at this stage we remain confident of maintaining a full year earnings result similar to last year's.

¹ MAF. <http://www.maf.govt.nz/mafnet/publications/wood-availability/central-north-island>

I sincerely thank our business partners, staff and Directors who have helped us achieve another record result, which is a tribute to all who were involved.

Mark Cairns

CHIEF EXECUTIVE