Greater Wellington
Te Pane Matua Taiao

20 September 2022

File Ref: OIAP-7-25717

[redacted]
By email: [redacted]

Tēnā koe [redacted]

Request for information 2022-144

I refer to your request for information dated 1 September 2022, which was received by Greater Wellington Regional Council (Greater Wellington) on 1 Septemb   2022. You have requested the following:

"Under the Local Government Official Inform tion and Meetings Act 1987, I request a copy of all documents and reports in relation to the bid by Napier Port to take over CentrePort's container shipping business.

Where information is withheld, I request that you provide the title and date of the communication/document withheld the reason for refusal, and the grounds in support of that reason."

Greater Wellington's response follows:

Please find attached   ll information within the scope of your request:

- Attachment 1: Independent advice re CentrePort Container Services Business - August 2022 PWC
- Attachment 2: CentrePort Container Services impact - summary 20220412
- Attachment 3: Independent advice re CentrePort - Final Report August 2022 (1) _Redacted
- Attachment 4: Napier Port re Lower North Island Freight and Infrastructure Proposal

Certain information in Attachment 3 and one additional document – KPMG CentrePort Container Services Impact – 21 March 2021, within the scope of your request has been withheld under section 7(2)(b)(ii) of the Local Government Official Information and Meetings Act, as the release of the information in question would be likely unreasonably to prejudice the commercial position of Centreport.

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We have considered whether the public interest in the requested information outweighs Greater Wellington’s need to withhold the report. As a result, we do not consider that the public interest outweighs Greater Wellington’s reason for withholding parts of the document under the gro nds identified above. We note that Attachment 2, provides a high-level summary of the relevant information.

If you have any concerns with the decision(s) referred to in this letter, you have the right to request an investigation and review by the Ombudsman under section 27(3) of the Lo al Government Official Information and Meetings Act 1987.

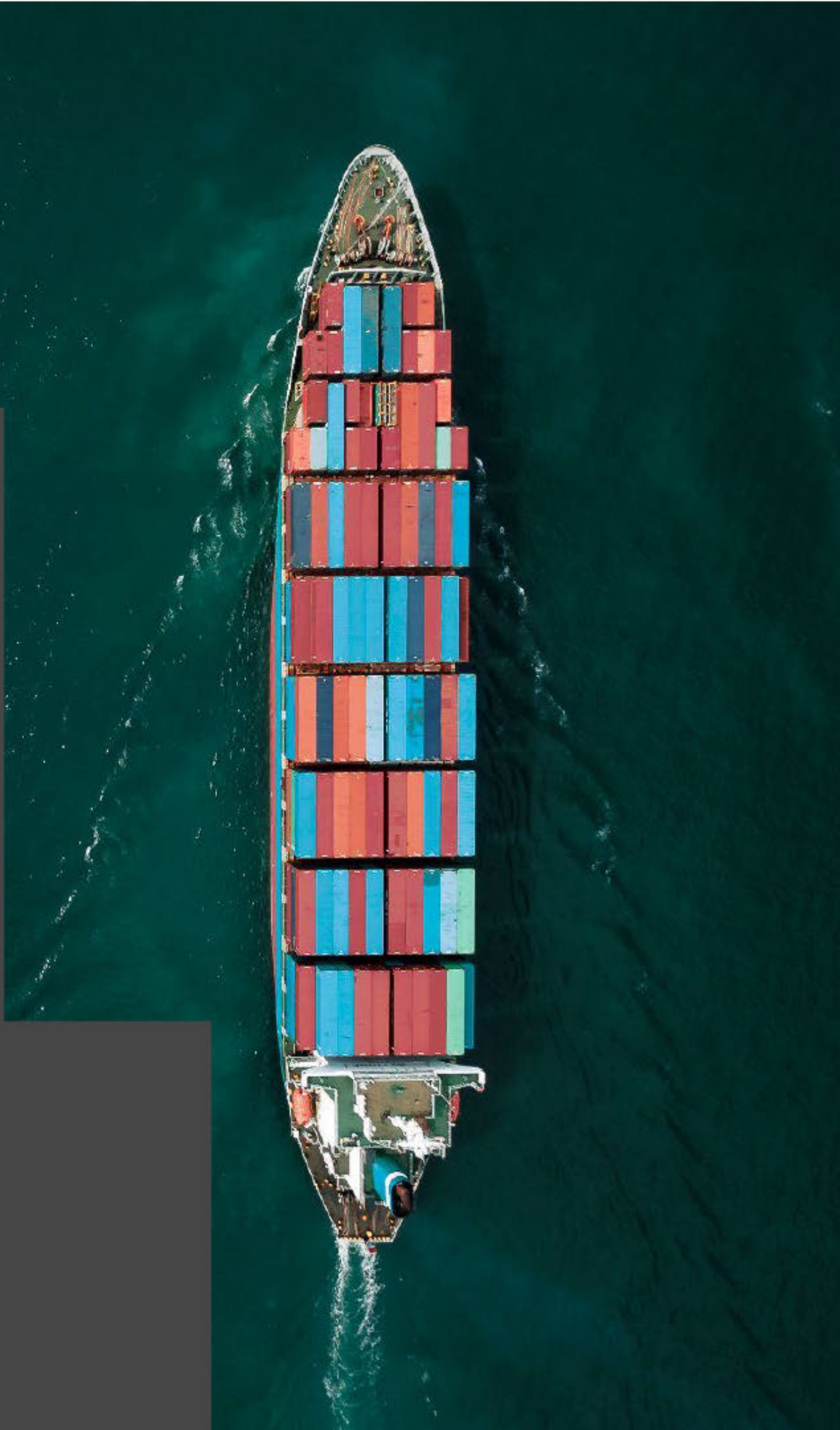
Please note that it is our policy to proactively release our responses to official inf rmation requests where possible. Our response to your request will be published shortly on Greater Wellington’s website with your personal information removed.

Nāku iti noa, nā

Luke Troy
Kaiwhakahaere Matua Ruataki | General Manager Strategy

CentrePort's Container Services Business

Greater Wellington Te Pane Matua Taiao
August 2022



pwc

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19 August 2022

Tēnā koe Luke,

CentrePort Investment Considerations

This report sets out our high-level views on the approach by Napier Port Limited (Napier Port) to CentrePort Limited (CentrePort) in relation to a potential 'collaboration' with respect to lower North Island container and log trade.

This report has been prepared for Greater Wellington Regional Council (Greater Wellington or GW) in accordance with our engagement letter dated 1 July 2022, to assist the GW officers and Councillors with regard to their potential response to the Napier Port approach.

We draw your attention to the important message in Appendix A. Our principal analysis and recommendations should be read in conjunction with the key terms of business and restrictions set out in that Appendix.

We acknowledge that this report may be made available by GW to support its decision process. However, no party other than GW may rely on this report and we will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than GW, except as expressly agreed in writing to the contrary.

We look forward to discussing this report with you.

Nā māua noa, nāi,
PricewaterhouseCoopers

PricewaterhouseCoopers.

Contents

Executive Summary

Introduction

We have been requested by Greater Wellington to provide independent comment and advice on the proposal by Napier Port to 'collaborate' with CentrePort with respect to the lower North Island container and log trade.

As the largest and controlling shareholder of CentrePort, Greater Wellington wishes to receive independent advice on Napier Port's proposal, in addition to the analysis prepared by CentrePort and its advisers.

Napier Port proposal

The 'collaboration' proposal by Napier Port is, in essence, a proposal to acquire CentrePort's container business. CentrePort and its advisors have evaluated the proposal and discounted it on the basis of it undervaluing the container business and it being a departure from CentrePort's strategic direction to be a full service port.

We concur that **the proposal undervalues the strategic value of CentrePort's Container Services (CS) business**. The high-level 'value' proposed by Napier Port includes the assumed avoidance of capital expenditure on the redevelopment of CentrePort's container terminals and facilities and the alternative use of CentrePort land. The assumptions made by Napier Port appear to be based on publicly available data that is now out of date or incorrect.

We note and acknowledge that the financial returns to CentrePort from its container business are, at present, sub-optimal from a capital employed perspective. The business is still recovering from the effects of the Kaikōura earthquake in November 2016 and capital expenditure to reinstate the Thorndon Container Wharf is nearing completion. However, historical returns for the CS business (pre 2016 Kaikōura earthquake) have also been lower than optimal.

The proposal would appear to materially understate the value and incremental volume the CS business would bring to Napier Port (or another party). We do not consider the value attributed to be close to the incremental value that would accrue to Napier Port from the acquisition.

Further, the Napier Port proposal does not address the contribution to CentrePort's operating costs that the CS business makes. These costs are otherwise unavoidable and as a result the removal of the container business the marine services and other costs of operation do not reduce accordingly. As a result, CentrePort is financially worse off relative to the forward financial expectations of CentrePort management.

Strategic considerations

CentrePort's board and shareholders have endorsed the strategy of CentrePort being a full-service port company. Greater Wellington obtained separate advice in relation to CentrePort's redevelopment plan and that advice stated:

> *"The CentrePort preferred development pathway as a 'full-service' port has a strong strategic logic. This logic is to ensure the best use of fixed marine and central costs for the port, to allow flexibility and resilience over time as markets change and also to provide opportunities for future growth …"*

The advice also notes that the potential transfer of container services to Port Napier undermines the sustainability of CentrePort and has economic impact on the Wellington Region (employment and economic activity, although note that the analysis around economic activity is not well explored).

We consider there are strong arguments for retention of the Container Services business in some form but that **a greater degree of true collaboration with another port or ports** to optimise the CS assets across both ports, better serve customers and maximise returns on capital employed (reduce future capital outlays also) could be very beneficial. The recent collaboration with Port Marlborough is a very good example of this, leveraging existing infrastructure, providing cost effective and value adding services to shippers.

Executive Summary *(cont.)*

Alternative opportunities

The port sector in New Zealand is highly competitive and to a very large extent, the international shipping lines control the ship movements and the ports to which they call.

We consider it likely that further consolidation of the New Zealand port sector will occur. **CentrePort is well positioned to play an important role in that consolidation**.

As shipping lines continue the shift to larger vessels, it is likely to lead to calls to fewer ports within New Zealand, a trend that has been underway for many years already. A collaboration with another port is one way that CentrePort could potentially leverage its current investments in its port assets. CentrePort has invested in its own volume growth initiatives to support its CS business including its Whanganui based Direct Connect Container Services and recently announced collaboration with Port Marlborough to establish an inland cargo hub at Riverlands, Blenheim.

CentrePort management have indicated a desire to collaborate with multiple other ports and transport providers (notably KiwiRail), seeking better utilisation of assets, greater flexibility for shippers and attractive options for the shipping lines to build alternative port calls into their schedules.

In our view, the Napier Port proposal, while termed a collaboration, falls short of most aspects of a true collaboration. It certainly does not provide sufficient detail on the means of collaboration or the value uplift to Napier Port, which we consider to be materially understated, from both a synergistic perspective and a potential market re-rating should Napier Port be able to acquire CentrePort's CS business.

The value exchange for CentrePort significantly undervalues the business (before further consideration of the potential loss strategic impact for CentrePort). In our view, other collaborations (or structures) could produce greater returns to CentrePort, the region's businesses and CentrePort's shareholders.

An approach to ascertaining the value of the opportunity to collaborate, while also seeking the best terms of future supply of services to the region's businesses, would be to **undertake a 'market sounding' process**. Such a process could seek expressions of interest in (or offers for) a stake in the CentrePort CS business. However, the timing of any such process should be considered in light of the recent return of the CS business to near full service potential (with capacity available).

We have considered the options available to CentrePort and its shareholders with respect to the CS business. Based on discussions with CentrePort management, we understand that there is a genuine willingness to explore collaborations with other ports and transport providers. As such, it does not appear that CentrePort is closed to the concept of potentially working with Napier Port, but on a basis that creates value for both parties and is not an undervalued acquisition proposal termed a collaboration.

1 Introduction and approach

Introduction and approach

Background

CentrePort is owned by two regional councils, Greater Wellington Regional Council and Horizons Regional Council. Greater Wellington's holding company W R C Holdings Limited (WRC) holds 76.92% of CentrePort's shares and MWRC Holdings Limited holds 23.08% of the shares issued on behalf of Horizons.

CentrePort has been approached by Napier Port to form a "collaborative relationship" in relation to container and log trade. The most recent approach is detailed in a January 2022 paper titled CentrePort / Napier Port Collaborative Value Estimate. This follows July 2021 discussions and a proposal document dated July 2021 and other prior approaches.

CentrePort and its advisers have critiqued the Napier Port proposal and dismissed it as undervaluing the CentrePort container business, not being strategically aligned with CentePort's strategy and being founded on incorrect information.

Greater Wellington has requested PwC to provide an independent review of the proposal submitted, including a high-level commentary on the potential impacts on the regional economy.

Purpose

The purpose of the work we have undertaken and summarised in this report is to provide independent advice to Greater Wellington on the Napier Port proposal to CentrePort.

Scope of work

We have been requested to provide high-level analysis of Napier Port's proposal and any alternative options that could be considered and their relative merit and risks.

The Council has previously received advice in relation to the CentrePort redevelopment strategy. We have not been requested to an in-depth or first principles look at the port's economic modelling.

Assessment of Napier Port's proposal

The 'collaboration' proposal by Napier Port is, in essence, a proposal to acquire CentrePort's Container Services (CS) business. CentrePort and its advisors have evaluated the proposal and discounted it on the basis of it undervaluing the container business and it being a departure from CentrePort's strategic direction to be a full service port. A summary of the Napier Port proposal can be found in section 3 of this report.

We have considered at a high-level the merits of the Napier Port proposal from a strategic, financial and wider economic perspective and provide our comments on this in section 3 of this report. Our approach to this review has been to:

- Assess the strategic merits of the proposal against both the strategic direction of CentrePort and the GW's Centreport strategy;
- Assess the Napier Port approach to value in its proposal and provide high level commentary on our assessment of the components considered in the proposal;
- Consider potential operational impacts and risks of the proposal; and
- Provide our conclusion of the merits of the proposal.

In assessing the Napier Port proposal it is important to consider the other alternatives that may also be possible for Centreport to derive higher value from these operations and thereby deliver increased shareholder value. In section 4 of this document we have also provided a perspective on alternate approaches Centreport could investigate to derive higher value from the container operations and a suggest approach to testing the potential value upside from each.

2 Background on CentrePort container operations

CentrePort strategic direction

CentrePort's strategy is to rebuild and re-establish itself as a full service port, with Containers a core part of the future full service strategy

The 2016 Kaikōura earthquake significantly damaged CentrePort's assets - in particular the CS business' assets. CentrePort's board has determined that it will continue to be a full service port and will continue to rebuild its assets to achieve that. A 10 year capital expenditure forecast prepared in 2021 showed over $660m of capex forecast, to be met from insurance proceeds, potential third party funding, borrowing and operating cash flows.

A key project for CentrePort is the redevelopment of the Interislander ferry infrastructure to accommodate new vessels commissioned by KiwiRail. 'Ferries and Fuel' is a key CentrePort business unit and part of its key competitive advantage as a port, as these can not be replicated by others for the services they provide.

Regeneration focus

CentrePort has been focused on restoring the physical infrastructure damaged in the Kaikōura earthquake to create a more efficient, more resilient and more adaptable port for the future.

CentrePort's regeneration programme is based on four pillars - people, customers, the environment and its community. CentrePort is working towards its regeneration goals through a series of current regeneration projects including:

- Rail onto Port (reinstated four years after the Kaikōura quake)
- Thorndon Container Wharf reinstatement (completed, increasing the capacity of container operations)
- Electric container transfer vehicles (on order)
- Waingawa log hub expansion (greater log capacity)
- Vehicle import area development (greater vehicle storage).

CentrePort's current strategic objectives are to:

- Strengthen relationships
- Build a long term sustainable and resilient business
- Grow freight capacity
- Optimise land use and enable city and regional integration

The regeneration programme will enable CentrePort to further develop the port as one of the key logistics assets of central New Zealand. The CS business is enabling CentrePort to increase the resilience of its infrastructure further enabling the region's response to natural disasters, supporting regional trade growth and supply chain efficiency.

Of relevance to the returns to shareholders is the expected dividend payments of $6m p.a. over the three years to FY24.

Strategic importance of the Container operations

CentrePort aims to re-establish itself as a fully functioning container port, with key recent investments including:

- The return of container cargo by rail following the reinstatement of rail infrastructure damaged by the Kaikōura quake;
- The reinstatement of Thorndon Container Wharf, which has recently been completed. This increases the operational length of the Container Berth to over 250m; and
- Further development of inland port hubs, as demonstrated by the Direct Connect (Whanganui) and recent Riverlands (Blenheim) investments.

CentrePort container operations today

CentrePort has invested heavily to reinstate its Thorndon Container Berth to over 250m operational length following extensive damage in the 2016 Kaikōura earthquake. It has inland port hub initiatives in Whanganui & Blenheim

Plan to continue operation as a full service Port

CentrePort's strategy has been to remain a full service port - well before the Kaikōura earthquake caused significant damage to the Port. The Port of Wellington (as it was previously called) has long been an integral port for the import and export of containers but as other New Zealand ports have developed their infrastructure and shipping lines have commanded greater control over the ports they call upon, CentrePort's relative position in the container trade has reduced. Nonetheless, CentrePort had a strategy for the growth of its container business and was seeing the level of containers (TEUs, twenty-offt equivalent units) increasing up to 2016.

The 2016 earthquake significantly impacted CentrePort. Container operations in particular were noticeably disrupted with damage to the container wharf severely limiting the number of vessels and TEU capacity of the port.

Following the Kaikōura earthquake a number of reviews were undertaken to assess the optimal option in relation to CentrePort. CentrePort engaged advisors to provide an Investment Strategy for CentrePort, which was reviewed by separate economic advisors at the request of GW.

CentrePort's strategy is to have a flexible port that could grow further to 400,000 TEUs (or greater) and altering the volume of break bulk, particularly logs, to accommodate this potential growth.

Both advisors were aligned that a full service port was the best option for CentrePort. GW's advisors stated that:

> *"The CentrePort preferred development pathway as a 'full-service' port has a strong strategic logic. This logic is to ensure the best use of fixed marine and central costs for the port, to allow flexibility and resilience over time as markets change and also to provide opportunities for future growth …"*

Thorndon Container Wharf reinstatement

A key component of the reinstatement of CentrePort as a fully functioning container port has been the remediation of the Thorndon Container Wharf. Substantial damage incurred to that wharf meant the quay cranes could not operate. An initial 125m of rails were installed allowing unloading of container ships, although with operational challenges. A full 250m of rails now provide much more efficient container services. With the wharf reinstated it is likely that CentrePort will be able to attract larger TEU vessels compared to previously.

Whanganui and Blenheim inland ports

CenterPort has also invested further in Direct Connect Container Services to provide greater service to the Taranaki, Whanganui and Manawatū regions. The rail service bringing containers to CentrePort, CentreRail, is run in conjunction with KiwiRail.

CentrePort has recently announced a joint venture with Port Marlborough to acquire land in Blenheim to commence the development of an inland port to service the Marlborough region.

CentrePort container operations

While CentrePort has invested heavily to reinstate its Thorndon Container Berth, it has further capital expenditure in relation to Container Services over the next 10 years for various regeneration projects and BAU. CentrePort's advisors have provided estimates of the value of the Container Services business depending on the volume of TEUs that CentrePort is able to attract. In addition to that value, the unavoidable costs that CS contributes to cover, increases the value to CentrePort considerably under both scenarios

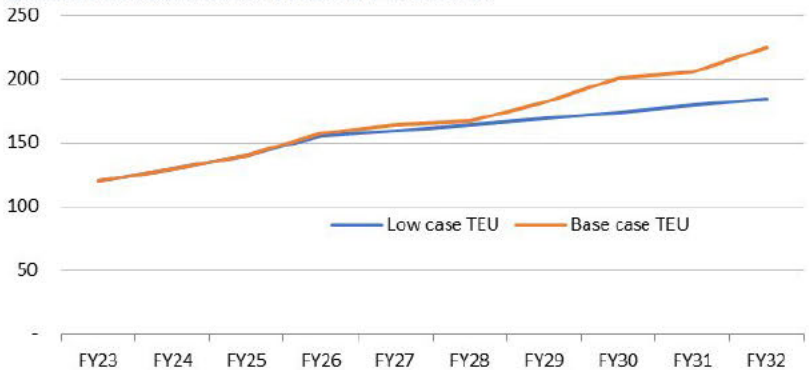
Financial performance

CentrePort and its advisors have provided high-level financial forecasts for the CS business over the next 10 years together with the FY40 and FY50 forecasts. Two scenarios are put forward:

- Low scenario TEU build - 120k TEU in 2023 rising to 184 TEU in 2032; and
- Base scenario TEU build - 120k TEU in 2023 rising to 225 TEU in FY32.

Both volume scenarios are summarised in the figure below.

CentrePort Container Volume Forecasts



Comments on assessment

The approach taken CentrePort's advisors to assess the Napier Port offer (a discounted cash flow analysis) is an appropriate methodology to apply to estimate the value of a long lived infrastructure asset, particularly one with lumpy cash flows (largely due to lumpy capex) as its free cash flows can be reasonably projected forward.

However, we note that a large component of the business' value (under either scenario) is contained in the terminal value that is 28 years hence. This is highly unusual and shows the challenges that the container business has to generate value, before considering the contribution to unavoidable costs.

However, as is discussed in the following section, a divestment of the CS business to Napier Port would leave CentrePort with considerable costs that it states it cannot avoid. In other words, CS provides a significant contribution the overheads of CentrePort and in particular the costs of providing Marine Services. Once that contribution is factored into the analysis, the value to CentrePort is raised considerably.

An acquirer would have similar synergistic benefits that it could achieve provided it did not have step-changes in its level of overheads or marine services costs as it increased its TEU volumes. The Napier Port proposal does not factor those synergies into its analysis.

The CS business is a low return business that has not historically achieved a return commensurate with its cost of capital, stand alone. However, it is a key strategic asset and CentrePort being a full service port has been endorsed by its shareholders.

Potential container port consolidation and collaboration

Consolidation within the wider NZ port industry is likely to occur in the container businesses as shipping lines shift to larger vessels and seek to call on lesser ports in New Zealand. CentrePort has the opportunity to consider collaboration options to position itself to better leverage its CS business

Consolidation of ports and terminals has happened in a number of markets globally as the shipping industry continues the trend toward larger container ships and greater aggregation of market power within the shipping lines.

The impact on global shipping trade has been a desire by the shipping lines to have fewer calls to ports. Some ports are unable to support the larger ships.

Further, as seen through the Covid-19 pandemic, New Zealand as a country is not in a strategically strong position with regard to the international freight flows and position with the international shipping lines. The majority of freight internationally flows "east-west" and the "north-south" trade is not as strategically important to the shipping lines.

We anticipate growing competitive pressure within the ports sector as a result of the demands of international shipping lines and the need to meet those demands for the benefit of the ports and their customers.

The resurgence of coastal shipping will also assist in meeting those needs and CentrePort can play an important part in that shipping. CentrePort's current strategy is to remain as a full service port and has invested in assets and operations outside the Wellington region to facilitate growth in its CS business.

We highlight this at this stage of the report to contextualise the Napier Port proposal and its analysis, including the potential counterfactual(s).

Currently, many of the container ports are facing capacity constraints. Each has long term growth initiatives and seeks to grow its own capacity and infrastructure e.g. Napier Port's recent $170m investment into its new 6 Wharf.

Looking for options that enable greater utilisation of existing assets and avoiding costly infrastructure builds (or at least a coordinated development of capacity across the port sector) has benefit across the sector, provided appropriate land transport (particularly rail) and coastal shipping can facilitate any collaboration and coordination across the sector.

Shippers will look to new and alternative shipping options if they are provided competitive pricing and a greater level of service. Collaboration has the potential to provide value adding solutions to shippers and greater returns on assets employed to the port companies.

Material collaboration or consolidation will likely require regulatory approval (Commerce Commission, under the Commerce Act, if there is considered to be a risk of a material lessening of competition, or risk of such a lessening).

3

Assessment of Napier Port Proposal

Summary of Napier Port proposal

Napier Port's approach to CentrePort to collaborate with regard to lower North Island container and log trade is in effect a proposal for an outright acquisition of CentrePort's Container Services business. How CentrePort would retain any influence over relationships with customers or ongoing container operations in Wellington is not clear

There have been previous approaches by Napier Port to 'collaborate' with CentrePort in relation to its container business, and potentially its log business. In this latest approach it appears that 'collaboration' effectively means all CenterPort's current container trade would be expected to go through Napier Port, less any attrition as a result of the customer (shipper) preferring an alternative port (assumed to be primarily South Island customers).

The most recent approach in January 2022 contained further analysis and quantification of the benefits that Napier Port considered collaboration with CentrePort across containerised cargo could deliver for CentrePort (with additional, but unquantified, value if collaboration with respect to log cargo was also included).

Napier Port's proposal claimed to:

- share half of the benefits accruing to Napier Port with CentrePort via a direct shareholding in Napier Port, enabling CentrePort to share in Napier Port capital and dividend growth; and
- a structure which will enable CentrePort to maintain influence on behalf of their container cargo customers and region.

Napier Port also suggests that collaboration on lower North Island trade would:

- enable CentrePort to materially improve its returns on its container operations and remove the implicit ratepayer subsidy on CentrePort's container operations;
- enable the release of strategic port land and funds allocated to the container terminal upgrade to alternate purposes;
- be operationally feasible across both ports and landside transport activity and would not materially impact lower North Island cargo owners currently utilising CentrePort; and
- deliver environmental benefits via a reduction in carbon generation.

It should be noted that the Napier Port analysis is based on publicly available information and any insights that its officers or directors have in relation to the operation. It is not based on inside or management information (hence it is to be expected to contain inaccuracies or misinterpretations of positions). The proposal is subject to detailed due diligence.

On the next page we summarise the key components of value and our approach to assessing the merits of the Napier Port proposal.

Approach to assessing the Napier Port offer

The merits of Napier Port's proposal are assessed on the following pages against financial, value and strategic objectives

Metric	Comment
Methodology to assessing value of business	A discounted cash flow analysis is used by Napier Port to assess value of the CS business stand-alone. It assumes a negative free cash flow throughout the earnings period and hence capitalises a terminal year negative free cash flow. It does not provide for return to full service or sufficient timeframe to generate positive operating cash flows.
Growth projections	A key driver of value is the future growth prospects with respect to container volumes, CentrePort and Napier Port have markedly different assumptions. Napier Port's assumptions are too understated in terms of growth
Capital expenditure	Napier Port has assumed capex over the financial years FY22 and FY23 significantly above CentrePort projections
Unavoidable costs	Napier Port has assumed lower unavoidable costs for the CS business than estimated by CentrePort and its advisors. Napier Port does not factor the unavoidable costs into its calculations of value.
Land	Napier Port attributes value to land that it considers could be released if CentrePort exited the CS business. CentrePort and its advisors note that the timing and value are both uncertain and strategically the port it would lose considerable capacity
Value to Napier Port	The detail behind the assumptions outlined is not provided. There is no assessment of synergies, reasonable growth or rerating of Napier Port from the 'acquisition'
Strategic alignment	An assessment of the strategic merits of the proposal against the stated strategy of CentrePort and GW
Other considerations	Other factors for consideration include the impact of carbon emissions, congestion (or potential reduction in that) and other transport impacts

Summary of Napier Port proposal - value considerations

The Napier Port proposal undervalues the CS business, is not aligned to the strategic objectives of GW and does not provide for the protection of shippers and the regional economy. We assign a summary R/A/G evaluation to each factor

	PwC Assessment	Comment
Methodology		Does not fairly portrait the value of the CS business due to the capitalisation of earnings while still negative and not addressing or reflecting the matters described below. While the CS business may struggle to meet its cost of capital over the longer term, Napier Port's valuation of the CS business is unrealistic.
Growth projections		Does not factor in growth to the extent likely, particularly given the starting position is one where CentrePort is emerging from the disruption of the last 6 years (post Kaikoura earthquake in 2016). Strategic initiatives undertaken by CentrePort including Direct Connect and Marlborough joint venture with Port Marlborough evidence ability for CentrePort to grow above Napier Port's assumed TEU levels
Capital expenditure		The assumed capital expenditure is both inaccurate and also not totally avoidable (eg the berth reinstatement has now been completed). Napier Port also 'front-ends' the capital expenditure increasing its impact on its negative value determination.
Unavoidable costs		Napier Port is aware that certain costs will be unavoidable and includes those in part of its analysis but does not include such costs in its calculations of potential value. The unavoidable costs include Service Centre costs and a large proportion of the Marine Services costs attributed to the CS business (it is assumed that some costs can be absorbed by business units and passed through to customers). The non-consideration of these costs understates the value to CentrePort of the CS business from a financial perspective.
Land value		The proposal assumes a near term release of 8ha of land, permanently removing CentrePort's ability to operate a CS business in the future. CentrePort's position is that even if land could be released, it would be some 6-10 years away and require substantial work to rectify the ground and stormwater, hence reducing the value considerably.
Value to Napier Port		We consider the value uplift to Napier Port will likely be multiples of that presented in the proposal. Not only should Napier Port include the synergies it anticipates extracting, but also the potential strategic value that will likely be reflected in Napier Port's share price should the acquisition of CentrePort's CS business be affected.
Overall value summary		We consider the proposal to significantly understate the value of the CS business and not represent a fair value exchange for the divestment of the business. As noted above, the value potential for Napier Port is considerably higher than that presented and the means of 'sharing' upside via the proposed direct shareholding in Napier Port is highly dilutive to be practically of limited value.

Summary of Napier Port proposal - qualitative considerations

The Napier Port proposal undervalues the CS business, is not aligned to the strategic objectives of GW and does not provide for the protection of shippers and the regional economy

	PwC Assessment	Comment
Strategic alignment - CPL		Prevents CentrePort from being a full service port, undervalues the business and eliminates ability for future CS business.
Strategic alignment - GW		Does not align with GW's stated objectives of encouraging economic growth. Economists advice is that the loss of the container services business in Wellington will likely lead to businesses relocating over time and consequential job losses.
Capacity considerations		Napier Port asserts it has the capacity and does not need to build any further infrastructure, although it will have to further develop its Whakatu Inland Port if demand increases above forecast. Present capacity constraints are evident throughout the port and transport sector. CentrePort's currently provides container capacity which shippers are seeking to utilise.
Shipper benefits		Economic studies suggest that the loss of CentrePort's CS business to the Wellington region will significantly impact the service to shippers, as well as the cost of that service. CentrePort's CS strategy is to collaborate with other ports to address supply constraints and increase service standards to shippers, attracting custom to it.
Environmental considerations		Rated amber as the assertions put forward by Napier Port are not proven. Analysis by CentrePort's advisors suggest that the emissions assertions can not be supported however a greater study would need to be undertaken to confirm that.
Transport considerations		Similarly, the transport benefits asserts by Napier Port are not able to be proven at this stage. Given the close working relationship between KiwiRail and CentrePort and the increasing use of the KiwiRail network to facilitate collaboration or attraction of containerised cargo from outside the Wellington region, this may also be challenging to support.
Concept of collaboration		The concept of two competing ports collaborating to generate greater returns on assets employed and provide better and more effective services to its customers is to be encouraged (green rating) but the proposal submitted is not a collaboration and hence the red rating.
Commerce Commission		Noting that any collaboration that has the potential to significantly reduce competition will need Commerce Commission clearance or authorisation. Obtaining that is both time consuming and costly process.

4

Alternatives to the Napier Port Proposal

Alternate options to derive further value from the container operations

If CentrePort did wish to explore alternate options for its Container Services business a number of options could be considered to ensure the highest value is achieved

While we are concerned with the face value merits of the Napier Port proposal, we do consider it important to consider the benefits of such alternatives for CentrePort's Container Services business, particularly given the low return on investment being achieved (and forecast) from these operations.

Alternative options could take different forms and originate from different parties. However, we expect those of highest value (both financial and qualitative) to CentrePort and its shareholders will require retaining some existing CS capabilities and operations. We note that other ports are currently operating with capacity constraints. A coordinated approach to utilising existing assets and avoiding costly duplication would be beneficial to the port companies and their shareholders. Options include:

- **Further negotiations with Napier Port on a revised version of this or alternate offer**
  The Napier Port proposal currently under values the container operations of CentrePort and seeks to remove all container trade from CentrePort. Further engagement with Napier Port could lead to the development of a proposition which is much greater collaboration, reflecting the import and export role that CentrePort plays in the lower North Island and top of the South Island. Both value and collaborative roles will need to be addressed.
- **Partnership with another domestic port operator**
  CentrePort could look to partnership options with another domestic port operator. Given the strong competitive nature of Napier Port in the Lower North Island, greater collaboration may be possible with an upper North Island port (Port of Tauranga or Ports of Auckland). A closer collaboration with one or both of these ports may provide opportunity to optimise CS assets at both ports, as well as collaborate with KiwiRail to provide efficient services to all customers.
- **Sale to another domestic port operator**
  This structure is similar to what is currently proposed by Napier Port but would allow other domestic port operators to participate and offer bids. This would provide a degree of competitive tension that is likely to drive an improved outcome for CentrePort and its shareholders.
- **Partnership with an international operator**
  CentrePort could look to partner with an international operator. The partner may be able to improve current operations and facilitate greater relationships with key players in the international shipping industry.

Before engaging with wider parties it will be important to understand the potential economic benefits from consolidation or partnerships to CentrePort. A further assessment of other alternate options (eg redesign of the CS operating model) should also be considered in light of the potential collaborative options to ensure the highest value is able to be extracted, should such initiatives be pursued.

Benefits of running a wider process

CentrePort could consider undertaking a wider process (a "strategic review") to solicit interest in its CS business in order to maximise the potential value / benefit realised. The exact nature and scope of any transaction could be varied to best align to the objectives of CentrePort and Greater Wellington

Alternative structures

- By executing a wider process there is likely to be more diversity in proposals, which may be better aligned to the strategic objectives of CentrePort and Greater Wellington
- The industry is changing, in particular the shift to larger vessels and consolidation, as well as developments in coastal shipping. Alternative structures can help better position CentrePort to take advantage of these changes and retain capacity at CentrePort.
- CentrePort has inland port / feeder arrangements which will increase throughput materially over time.

Competitive tension

- The Napier Port approach was unsolicited and has been forcefully pursued. Should a wider strategic review be undertaken it will provide a degree of competitive tension, which is likely to drive a higher value outcome.
- Such a review should also enable CentrePort to retain control of the process, driving outcomes aligned to its objectives.
- A competitive / multiparty process reduces some transaction risks, although faces the risk of sharing greater data with current competitors.

Opportunity for alternative solutions

- Wider involvement in discussions can facilitate innovation potential structures or future business/partnership models which could be beneficial to Centreport
- Other parties may also bring existing relationships with key players in the shipping industry, which help deliver other favourable outcomes for CentrePort.

Through discussions with management we understand that many initiatives are underway. The timing of any such wider process would need to be considered in light of the CS business's return to full operational service potential (capacity) and any competitive responses that might result from knowledge of such a process. Doing 'nothing' in the short term is an option.

Potential other parties

There are a number of potential other parties that may be interested in partnering on CentrePort's Container Services business. However, actual appetite will need to be tested further.

	Considerations
Domestic Port operators	• Positions CentrePort ahead of any further consolidation within the port industry • Options to optimise freight flow within the region • Potential misalignment between the interests of CentrePort and its partner • Ensuring each party has adequate oversight and that joint funding is agreed upfront with clear responsibilities
International port operators	• Potential improved relationship with key shipping lines, positioning CentrePort well for any future consolidation • Need to ensure alignment between parties, including incentives for partner to align to CentrePort objectives • A number of shipping lines also act as terminal operators, which could position CentrePort well in the face of future consolidation • No ports in NZ are currently partnered with international operators in such a manner.

The potential for large infrastructure investors to invest in the CS business is limited given the relatively small size of the business. However, some of those parties may be relevant to the potential to invest in CentrePort as a whole should that exist, subject to the nature of the investment and the potential to deploy significant amounts of capital and add value to their investment

Potential next steps

If CentrePort and its shareholders wished to investigate alternative arrangements to add value to CentrePort's Container Business a scoping study or strategic review could be undertaken - typically this would be done by an independent adviser in conjunction with senior CentrePort management. Shareholder liaison would be expected through the process.

The following high-level plan is one example of how such a process could be undertaken.

Step	Description	*Elapsed months*
1	***Set objectives and appoint adviser***: As the nature of the review is of a Company business unit, it would be appropriate for the Company to run the process, supported by an independent party (providing comfort as to independence to the potential counterparties). Appointment of a financial and commercial adviser should occur, as well as potentially a legal adviser. A workshop to agree objectives for the process should be held with shareholders, board and senior executives. Given the different types of potential counterparties, a variety of alternative proposals would be anticipated to be received.	1
2	***Preparation***: Following the setting of objectives, CPL would prepare documentation to facilitate the market sounding/ strategic review of the business. An Information Memorandum (IM) would articulate the potential opportunity and what CPL was seeking, at a level that preserved confidential information and strategic intentions. This IM (once released) would solicit the equivalent of non-binding proposals as to how the strategic objectives of CPL could be met. Parties to be approached would be agreed and the market would be 'warmed' to prepare it for the upcoming release of the IM and execute confidentiality agreements.	2
3	***Market engagement***: The parties that have executed a confidentiality agreement would be provided the IM, receive presentation and be requested to provide proposals at the end of a defined period (typically at least a month). A key focus of the engagement phase is the interaction with parties facilitating the development of proposals that best align with CPL objectives. This phase concludes with the parties submitting written proposals (non-binding offers) as to how they can address CPL objectives	3+
4	***Evaluation and further development***: The proposals received would be evaluated against the objectives set and the status quo to assess the alignment to CPL's objectives and the potential value creation. Following evaluation (and approval by CPL Board) further engagement with a limited number of parties (say 1-3) would be expected to refine the proposals, test their 'substance', determine the key assumptions and conditions. This may also include a period of mutual due diligence, the detail of which may be held until the next stage, depending on the number of parties involved. Final proposals would be expected at the conclusion of this stage.	5+
5	***Reaching agreement***: The final proposals would be evaluated and submitted to CPL Board for consideration/approval. Any preferred proposal would be evaluated against the status quo or 'counterfactual'. On the assumption that a strong, value enhancing proposal was received, CPL would seek to reach a formal agreement with that party. This stage would include confirmatory due diligence and preparation of legal agreements. There may be the requirement for regulatory approvals (e.g. Commerce Commission or potentially Overseas Investment Office) and shareholder approval. This stage could take many months dependent on approvals.	6+

A

Appendix

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We reserve the right, but will be under no obligation, to review or amend our document, if any additional information, which was in existence on the date of this document was not brought to our attention, or subsequently comes to light.

Thank you

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CentrePort
Container Service Impact

SUMMARY DISCUSSION MATERIAL*

12 April 2022

*This document is a summary of our discussion paper of the same title dated 21 March 2022 and should be read in conjunction with that paper.

Container Service Impact - Strategic and Economic Assessment

Napier Port (NPH) initially approached CentrePort (CPL) in mid-2021 about "forming a collaborative relationship in relation to lower North Island container trade" (the Proposal). In its latest discussion pack dated Jan 2022, NPH's analysis suggests that collaboration between CPL and NPH could deliver $350m in additional value to CPL. The $350m value uplift comprises $260m of avoided losses, $67m in container terminal land released and $23m in NPH shares. NPH would share half of the benefits accruing to NPH (estimated $23m) with CPL via a direct shareholding in Napier Port. This summary sets out KPMG's independent assessment of the Proposal.

Overall, our view is that the Proposal does not recognise the full value of container trade to CPL, its shareholders and the Wellington region. Our review focused on the strategic, economic and financial merits of the Proposal for CPL as set out below. We have not considered any regulatory and legal implications of the Proposal.

Strategic

Pursuing the Proposal would be a departure from CPL's strategic direction to position as a full-service port for Central New Zealand. It would forgo the value envisaged and investments made in containers and incur costs to change direction.

CPL has defined its position as a full-service port for Central New Zealand. The container trade has a significant role in the service portfolio facilitating the efficient movement of cargo and international trade for consumers and businesses of the region. This strategy has been endorsed by the board and shareholders (based on independent advice). Supporting the container trade is integral to CPL's long term plans, including its Portfolio Investment Strategy, and associated commercial and operational plans. CPL has committed investments to this path, in particular the Container Berth Reinstatement project which has recently been completed.

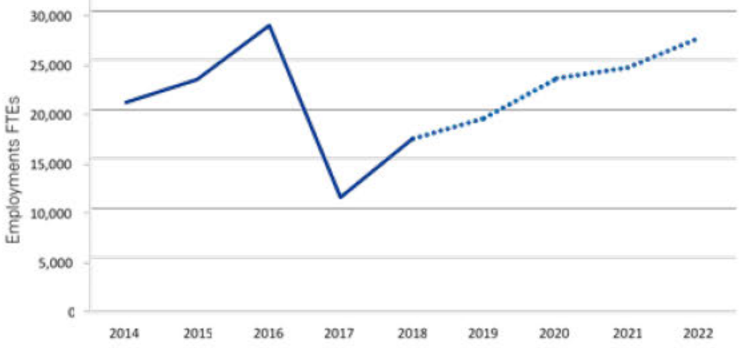
The Proposal, based on the written materials we have seen, implies that CPL would exit the container trade rather than collaborate with NPH. It is unclear how CPL would retain influence over container services for its customers and the region, contrary to the summary statement made in the Proposal.

Economic

Discontinuing CPL's container trade means higher cost for cargo owners, and indirectly to other businesses and consumers nationwide. Business in the Wellington region would be more directly impacted which could lead to reduction or relocation of jobs.

The container trade offers wider benefits for the region than just income for CPL and dividends for its shareholders. The region benefits from an efficient container trade which supports growing economic activity and employment. CPL estimated that in 2019 the container trade supported 19,600 jobs (as shown on the graph on the right) and provided $1.7 billion GDP contribution to the regional economy.

The Proposal states that there would be minimal impact on jobs and cargo owners would be cost neutral or better off using the Manawatu Inland Port. Nevertheless, it is unlikely that using Napier Port is cost neutral or better for CPL customers. NPH and CPL have long competed for customers in the region, and it is reasonable that customers use the port that offers them better value based on more efficient and cost-effective route to market.



We estimate that containerised cargo from CPL customers would travel twice the distance in tonne kms without container services in Wellington (refer overleaf).

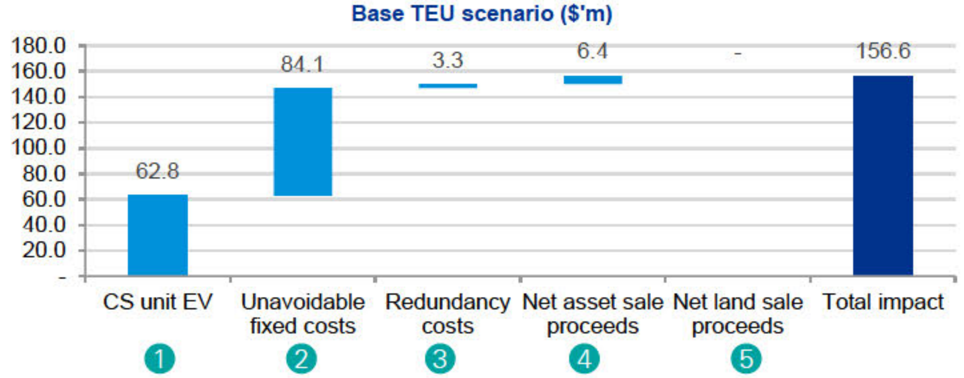
We are aware that port companies use incentives to win business however this cannot off-set a structural disadvantage in costs in the long term. If NPH were to take on some of the increased cost for customers, this may be temporary in the absence of competition from CPL or other ports.

Container Service Impact - Financial and Other Considerations

Financial

The Proposal's $350m value gain estimate for CPL is grossly unrealistic as it is based on a counterfactual that CPL would maintain a loss-making container business into perpetuity and continue to invest significant sums in it. CPL's container trade is currently loss making at EBITDA level because the wharf operated with significantly impaired operational capacity due to the damage from the 2016 earthquake and container volumes are still below volumes seen before the earthquake. With the completion of the Container Berth Reinstatement project, CPL is looking to accelerate container growth.

We estimate that container services adds $96m - $157m to CPL's Enterprise Value (EV) in a low and base TEU scenario respectively based on CPL's projections. Therefore, $23m in NPH shares undervalues CPL's container business. The chart below summarises the enterprise value lost should container services were discontinued (in the base TEU scenario).



Assumptions

1) Container Services (CS) discounted after FY22 and all directly attributable revenue and costs cease.
2) 40% of Service Centre costs allocated to CS cannot be avoided and will be reallocated to other business units.
3) Redundancy costs of $3.3m for 100 cargo workers and 15 more senior positions.
4) CS assets worth $84m+ would be written off, but mostly cannot be sold (wharf, depot, paving)
5) The timing and net value from the sale/lease of any surplus land is highly uncertain as it is an enclave in a working port, and reconfiguration would take time and have a high cost

Other considerations

Operational feasibility of redirecting cargo from Wellington to Napier is questionable

Even if operationally feasible over the longer term, it would require investment in road and rail transport capacity and port infrastructure which would require time and money.

Environmental impact is negative

A KPMG study concluded that domestic transport emissions associated with CPL's container trade are currently ~8.2k CO2 equivalent tonnes per year. The emissions under the counterfactual arrangements (with no container services in Wellington) would be close to double that amount, as the domestic transport distances associated with current CPL container movements would double.

Total distance and carbon emissions related to container movements with container services (base case) and without container services (counterfactual) in Wellington

	TKm (Tonne Kms) Combine the weight and distance of TEU movements			TCO2e (CO2 Tonnes equivalent) Covert TEU TKms to CO2 equivalent emissions			
	Rail (Tkm)	Road (Tkm)	Ferry (Tkm)	TCO2e - Rail	TCO2e - Road	TCO2e - Ferry	Total TCO2e
Base case	138,110,717	29,999,135	6,107,767	3,869	4,050	373	**8,207**
Counterfactual	275,071,664	61,388,900	-	7,705	8,288	-	**15,993**

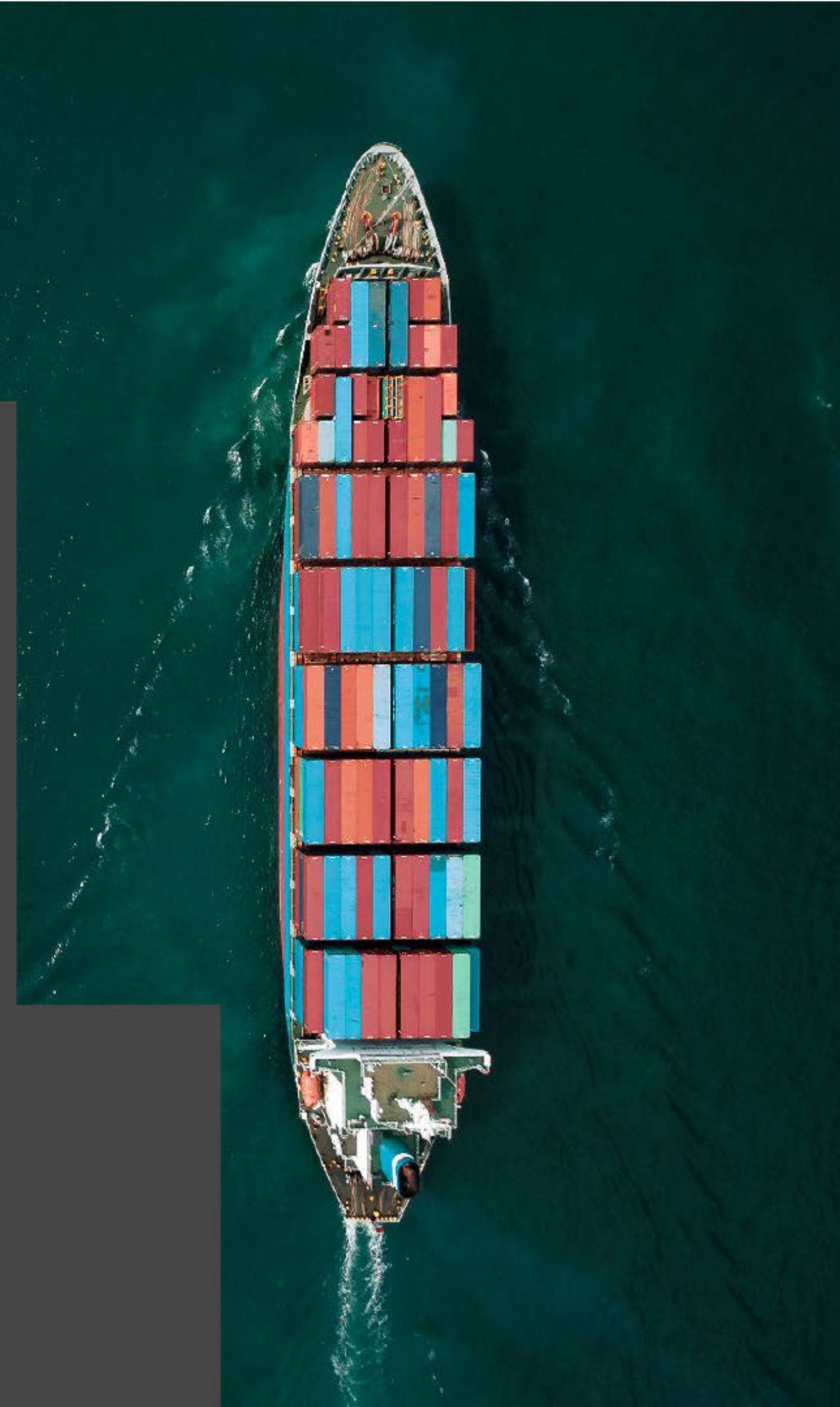
Impact on regional resilience is adverse

The port in Wellington is an important gateway for the region which contributes to its resilience. Closing the container trade would reduce the capacity and diversity of supply routes into the region. For example, in case of a natural disaster, cargo would need to travel by road or rail which are prone to disruption in emergencies.

Commercial In Confidence

CentrePort Investment Considerations

Greater Wellington Te Pane Matua Taiao
August 2022



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New Zealand remains affected by various measures to address the risk of the COVID-19 pandemic. Notwithstanding the relatively strong performance of many companies and the economy as a whole since mid 2020, it is not possible to assess with any certainty the implications of COVID-19 on CentrePort Limited or the economy as a whole. At the time of writing, New Zealand is in the "orange setting" of the traffic light protection system and there remains uncertainty as to the impact on businesses and the economy of the various measures necessary to manage the spread of the virus, and how long those measures and effects may be in place for.

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2 August 2022

Tēnā koe Seán,

CentrePort Investment Considerations

This report sets out our high-level views on two matters relating to the investment by Greater Wellington Regional Council (Greater Wellington or GW) in CentrePort Limited (CentrePort), namely:

- the approach by Napier Port Limited (Napier Port) to CentrePort/Greater Wellington regarding a potential 'collaboration' with respect to lower North Island container and log trade; and
- options with respect to the potential to acquire the 23.08% shareholding in CentrePort owned by Horizons Regional Council (Horizons).

This report has been prepared for Greater Wellington in accordance with our engagement letter dated 1 July 2022.

We draw your attention to the important message, immediately preceding this letter. Our principal analysis and recommendations should be read in conjunction with the key terms of business and restrictions set out in the Appendix. You may not make copies of this report available to other persons except as provided for in the engagement letter and subject to the conditions described therein. We will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than you, except as expressly agreed in writing to the contrary.

We look forward to discussing this report with you.

Nā māua noa, nāi,

Richard Longman
Partner

Carl Blanchard
Partner

Contents

Executive Summary

Introduction

We have been requested by Greater Wellington to provide independent comment and advice on two matters associated with its investment in Centreport:

a) The proposal by Napier Port to 'collaborate' with CentrePort with respect to the lower North Island container and log trade; and
b) The potential to acquire the 23.08% shareholding in CentrePort owned by Horizons Regional Council.

As the largest and controlling shareholder of CentrePort, Greater Wellington wishes to receive independent advice on Napier Port's proposal, in addition to the analysis prepared by CentrePort and its advisers.

Napier Port proposal

The 'collaboration' proposal by Napier Port is, in essence, a proposal to acquire CentrePort's container business. CentrePort and KPMG have evaluated the proposal and discounted it on the basis of it undervaluing the container business and it being a departure from CentrePort's strategic direction to be a full service port.

We concur that **the proposal undervalues the strategic value of CentrePort's Container Services (CS) business**. The high-level 'value' proposed by Napier Port includes the assumed avoidance of capital expenditure on the redevelopment of CentrePort's container terminals and facilities and the alternative use of CentrePort land. The assumptions made by Napier Port appear to be outdated or incorrect.

We note and acknowledge that the financial returns to CentrePort from its container business are, at present, sub-optimal from a capital employed perspective. The business is still recovering from the effects of the Kaikōura earthquake in November 2016 and capital expenditure to reinstate the Thorndon Container Wharf is nearing completion. However, historical returns for the CS business (pre 2016 Kaikōura earthquake) have also been lower than optimal.

The proposal would appear to materially understate the value the incremental volume the CS business would bring to Napier Port (or another party). We do not consider the value attributed (c.$23m plus plant and equipment not acquired) to be close to the incremental value that would accrue to Napier Port from the acquisition.

Further, the Napier Port proposal does not address the contribution to CentrePort's operating costs that the CS business makes. These costs are otherwise unavoidable and as a result the removal of the container business the marine services and other costs of operation do not reduce [redacted]

Strategic considerations

CentrePort's board and shareholders have endorsed the strategy of CentrePort being a full-service port company. Greater Wellington obtained advice from SGS Consulting in relation to CentrePort's redevelopment plan and that advice stated:

> *"The CentrePort preferred development pathway as a 'full-service' port has a strong strategic logic. This logic is to ensure the best use of fixed maring and central costs for the port, to allow flexibility and resilience over time as markets change and also to provide opportunities for future growth …"*

SGS also notes that the potential transfer of container services to Port Napier undermines the sustainability of CentrePort and has economic impact on the Wellington Region (employment and economic activity, although note that the analysis around economic activity is not well explored).

We consider there are strong arguments for retention of the Container Services business in some form but that **a greater degree of true collaboration with another port or ports** to optimise the CS assets across both ports, better serve customers and maximise returns on capital employed (reduce future capital outlays also) could be very beneficial. The recent collaboration with Port Marlborough is a very good example of this, leveraging existing infrastructure, providing cost effective and value adding services to shippers.

Executive Summary *(cont.)*

Alternative opportunities

The port sector in New Zealand is highly competitive and to a very large extent, the international shipping lines control the ship movements and the ports to which they call.

We consider it likely that further consolidation of the New Zealand port sector will occur. **CentrePort is well positioned to play an important role in that consolidation**.

As shipping lines continue the shift to larger vessels, it is likely to lead to calls to fewer ports within NZ, a trend that has been underway for many years already. A collaboration with another port is one way that CentrePort could potentially leverage its current investments in its port assets. CentrePort has invested in its own volume growth initiatives to support its CS business including its Whanganui based Direct Connect Container Services and recently announced collaboration with Port Marlborough to establish an inland cargo hub at Riverlands, Blenheim.

CentrePort management have indicated a desire to collaborate with multiple other ports and transport providers (notably KiwiRail), seeking better utilisation of assets, greater flexibility for shippers and attractive options for the shipping lines to build alternative port calls into their schedules.

In our view, the Napier Port proposal, while termed a collaboration, falls short of most aspects of a true collaboration. It certainly does not provide sufficient detail on the means of collaboration or the value uplift to Napier Port, which we consider to be materially understated, from both a synergistic perspective and a potential market re-rating should be able to acquire CentrePort's CS business..

The value exchange for CentrePort significantly undervalues the business (before further consideration of the potential loss strategic impact for CentrePort). In our view, other collaborations (or structures) could produce greater returns to CentrePort, the region's businesses and CentrePort's shareholders.

An approach to ascertaining the value of the opportunity to collaborate, while also seeking the best terms of future supply of services to the region's businesses, would be to **undertake a 'market sounding' process**. Such a process could seek expressions of interest in (or offers for) a stake in the CentrePort CS business. However, the timing of any such process should be considered in light of the recent return of the CS business to near full service potential (with capacity available).

We have considered the options available to CentrePort and its shareholders with respect to the CS business. Based on discussions with CentrePort management, we understand that there is a genuine willingness to explore collaborations with other ports and transport providers. As such, it does not appear that CentrePort is closed to the concept of potentially working with Napier Port, but on a basis that creates value for both parties and is not an undervalued acquisition proposal termed a collaboration.

Horizon's shareholding

Greater Wellington has a strong position as the c.77% shareholder in CentrePort. It effectively controls the company and is above the special resolution threshold. [redacted] We also understand that acquiring this stake may also be challenging with respect to the deployment of Greater Wellington's capital resources.

However, the potential to work with Horizons to both facilitate its potential exit and also achieve greater financial returns for Greater Wellington exists. Section 5 of this report outlines potential opportunities to add value to Greater Wellington's investment (including potentially a partial release of capital), while also meeting the economic benefits to the region of an efficient import and export service and a well operated port.

1

Introduction and approach

Introduction

Background

CentrePort is owned by two regional councils, Greater Wellington Regional Council and Horizons Regional Council. Greater Wellington's holding company W R C Holdings Limited (WRC) holds 76.92% of CentrePort's shares and MWRC Holdings Limited holds 23.08% of the shares issued on behalf of Horizons.

CentrePort has been approached by Napier Port to form a "collaborative relationship" in relation to container and log trade. The most recent approach is detailed in a January 2022 paper titled CentrePort / Napier Port Collaborative Value Estimate. This follows July 2021 discussions and a proposal document dated July 2021 and other prior approaches.

CentrePort and its advisers have critiqued the Napier Port proposal and dismissed it as undervaluing the CentrePort container business, not being strategically aligned with CentePort's strategy and being founded on incorrect information.

Greater Wellington has requested PwC to provide an independent review of the proposal submitted, including a high-level commentary on the potential impacts on the regional economy.

In addition, Horizons has indicated a willingness to divest its shareholding in CentrePort and you have indicated that Greater Wellington has previously expressed an interest in acquiring this shareholding and seeks independent comment on the options available and considerations that GW should assess.

Purpose

The purpose of the work we have undertaken and summarised in this report is to provide independent advice to Greater Wellington on the Napier Port proposal CentrePort, as well as the strategic options available with regard to the Council's CentrePort shareholding and assessing Horizon's shareholding in CentrePort.

Scope of work

We have been requested to provide high-level analysis of Napier Port's proposal, including:

- Testing the credibility of numbers, assumptions and actions contained in the proposal;
- Assessment of the valuation methodologies used;
- Possible wider impacts for the Wellington Region and its economy;
- Commercial risks and challenges the proposal would contain; and
- Environmental and transport network considerations.

The scope also includes a high-level analysis of any alternative options that could be considered and their relative merit and risks.

In addition, we have been requested to provide advice on the implications and considerations that need to be made for the potential purchase of Horizon's shareholdings in CentrePort.

The requirements for reporting are:

- A short report to to Greater Wellington officers; and
- Presentation to Greater Wellington's Councillors and WRC Directors.

The Council has previously received advice in relation to the CentrePort redevelopment strategy (refer SGS Economics and Planning's report dated November 2020). We have not been requested to an in-depth or first principles look at the port's economic modelling.

Our approach

There are two key strategic components you have requested we consider: the Napier port proposal and options regarding Horizons' 23.08% shareholding. We have approached each separately in this document

Assessment of Napier Port's proposal

The 'collaboration' proposal by Napier Port is, in essence, a proposal to acquire CentrePort's Container Services (CS) business. CentrePort and KPMG have evaluated the proposal and discounted it on the basis of it undervaluing the container business and it being a departure from CentrePort's strategic direction to be a full service port. A summary of the Napier Port proposal and KPMG evaluation can be found in section 3 of this report.

We have considered at a high-level the merits of the Napier Port proposal from a strategic, financial and wider economic perspective and provide our comments on this in section 3 of this report. Our approach to this review has been to:

- Assess the strategic merits of the proposal against both the strategic direction of CentrePort and the GW's Centreport strategy
- Assess the Napier Port approach to value in its proposal and provide high level commentary on our assessment of the components considered in the proposal
- Consider potential operational impacts and risks of the proposal; and
- Provide our conclusion of the merits of the proposal.

In assessing the Napier Port proposal it is important to consider the other alternatives that may also be possible for Centreport to derive higher value from these operations and thereby deliver increased shareholder value. In section 4 of this document we have also provided a perspective on alternate approaches Centreport could investigate to derive higher value from the container operations and a suggest approach to testing the potential value upside from each.

Consideration of Horizons' 23% shareholding

In section 5 of this document we provide a set of key considerations in considering a potential purchase of Horizons' 23% shareholding in Centreport. The potential sale of this shareholding does provide a pivotal point for GW to consider the optimal shareholding structure for Centreport going forward. As such our assessment has covered:

- The strategic and financial attractiveness of the Horizon shareholding;
- Options available to CentrePort;
- Alternate shareholding structures that could be considered by GW for Centreport; and
- Potential next steps if GW was to consider an acquisition or alternate shareholding structure for Centreport.

2

Background on Centreport container operations

CentrePort strategic direction

CentrePort's strategy is to rebuild and re-establish itself as a full service port, with Containers a core part of the future full service strategy

The 2016 Kaikōura earthquake significantly damaged CentrePort's assets - in particular the CS business' assets. CentrePort's board has determined that it will continue to be a full service port and will continue to rebuild its assets to achieve that. A 10 year capital expenditure forecast prepared in 2021 showed over $660m of capex forecast, to be met from insurance proceeds, potential third party funding, borrowing and operating cash flows.

A key project for CentrePort is the redevelopment of the Interislander ferry infrastructure to accommodate new vessels commissioned by KiwiRail. 'Ferries and Fuel' is a key CentrePort business unit and part of its key competitive advantage as a port, as these can not be replicated by others for the services they provide.

Regeneration focus

CentrePort has been focused on restoring the physical infrastructure damaged in the Kaikōura earthquake to create a more efficient, more resilient and more adaptable port for the future.

CentrePort's regeneration programme is based on four pillars - people, customers, the environment and its community. CentrePort is working towards its regeneration goals through a series of current regeneration projects including:

- Rail onto Port (reinstated four years after the Kaikōura quake)
- Thorndon Container Wharf reinstatement (completed, increasing the capacity of container operations)
- Electric container transfer vehicles (on order)
- Waingawa log hub expansion (greater log capacity)
- Vehicle import area development (greater vehicle storage).

CentrePort's current strategic objectives are to:

- Strengthen relationships
- Build a long term sustainable and resilient business
- Grow freight capacity
- Optimise land use and enable city and regional integration

The regeneration programme will enable CentrePort to further develop the port as one of the key logistics assets of central New Zealand. The regeneration project is underpinned by four pillars (Customers, People, Community and Environment) and of particualr note to the CS business is enabling CentrePort to increase the resilience of its infrastructure to enable the region to respond to natural disasters, support regional trade growth and supply chain efficiency.

Of relevance to the returns to shareholders is the expected dividend payments of $6m p.a. over the three years to FY24.

Strategic importance of the Container operations

CentrePort aims to re-establish itself as a fully functioning container port, with key recent investments including:

- The return of container cargo by rail following the reinstatement of rail infrastructure damaged by the Kaikōura quake;
- The reinstatement of Thorndon Container Wharf, which has recently been completed. This increases the operational length of the Container Berth to over 250m; and
- Further development of inland port hubs, as demonstrated by the Direct Connect (Whanganui) and recent Riverlands (Blenheim) investments.

CentrePort container operations today

CentrePort has invested heavily to reinstate its Thorndon Container Berth to over 250m operational length following extensive damage in the 2016 Kaikōura earthquake. It has inland port hub initiatives in Whanganui & Blenheim

Plan to continue operation as a full service Port

CentrePort's strategy has been to remain a full service port - well before the Kaikōura earthquake caused significant damage to the Port. The Port of Wellington (as it was previously called) has long been an integral port for the import and export of containers but as other New Zealand ports have developed their infrastructure and shipping lines have commanded greater control over the ports they call upon, CentrePort's relative position in the container trade has reduced. Nonetheless, CentrePort had a strategy for the growth of its container business and was seeing the level of containers (TEUs, twenty-offt equivalent units) increasing up to 2016.

The 2016 earthquake significantly impacted CentrePort. Container operations in particular were noticeably disrupted with damage to the container wharf severely limiting the number of vessels and TEU capacity of the port.

Following the Kaikōura earthquake a number of reviews were undertaken to assess the optimal option in relation to CentrePort. CentrePort engaged KPMG to provide a Investment Strategy for CentrePort, which was reviewed by SGS at the request of WRC.

KPMG identified that the optimal option was a full service port with a higher TEU capacity of 300,000. SGS concluded that a full service port with a capacity of 200,000 TEU was a more preferable option due to lower investment and improved return on investment. CentrePort's strategy is to have a flexible port that could grow further to 400,000 TEUs (or greater) and altering the volume of break bulk, particularly logs, to accommodate this potential growth.

Both KPMG and SGS were aligned that a full service port was the best option for CentrePort. To quote the SGS report:

> *"The CentrePort preferred development pathway as a 'full-service' port has a strong strategic logic. This logic is to ensure the best use of fixed maring and central costs for the port, to allow flexibility and resilience over time as markets change and also to provide opportunities for future growth …"*

Thorndon Container Wharf reinstatement

A key component of the reinstatement of CentrePort as a fully functioning container port has been the remediation of the Thorndon Container Wharf. Substantial damage incurred to that wharf meant the quay cranes could not operate. An initial 125m of rails were installed allowing unloading of container ships, although with operational challenges. A full 250m of rails now provide much more efficient container services. With the wharf reinstated it is likely that CentrePort will be able to attract larger TEU vessels compared to previously.

Whanganui and Blenheim inland ports

CenterPort has also invested further in Direct Connect Container Services to provide greater service to the Taranaki, Whanganui and Manawatū regions. The rail service bringing containers to CentrePort, CentreRail, is run in conjunction with KiwiRail, but subsidised by CentrePort.

CentrePort has recently announced a joint venture with Port Marlborough to acquire land in Blenheim to commence the development of an inland port to service the Marlborough region.

CentrePort container operations - forecast

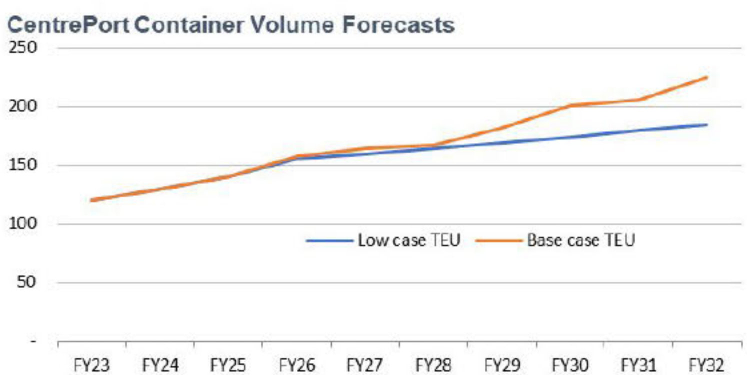
While CentrePort has invested heavily to reinstate its Thorndon Container Berth, it has further capital expenditure in relation to Container Services of c$87m over the next 10 years for various regeneration projects and BAU

Financial performance

KPMG and CentrePort have provided high-level financial forecasts for the CS business over the next 10 years together with the FY40 and FY50 forecasts. The EBITDA forecasts are illustrated opposite under two scenarios:

- Low scenario TEU build - 120k TEU in 2023 rising to 184 TEU in 2032; and
- Base scenario TEU build - 120k TEU in 2023 rising to 225 TEU in FY32.

Both volume scenarios are summarised in the figure below:



Capital expenditure

[redacted] over that 10 year period but would then differ as there is lumpier capex required as the capacity of the port will need to increase faster to meet the base case forecast volume.

[redacted]

Source: CentrePort Container Services Impact, KPMG, 21 March 2021;

CentrePort container operations - KPMG value estimates

[redacted]

Comments on KPMG assessment

KPMG's discounted cash flow analysis is an appropriate methodology to apply to estimate the value of a long lived infrastructure asset, particularly one with lumpy cash flows (largely due to lumpy capex) as its free cash flows can be reasonably projected forward.

To have such a large component of a business' value (under either scenario) contained in the terminal value that is 28 years hence is highly unusual and shows the challenges that the container business has to generate value, before considering the contribution to unavoidable costs.

However, as is discussed in the following section, a divestment of the CS business to Napier Port would leave CentrePort with considerable costs that it states it cannot avoid. In other words, CS provides a significant contribution the overheads of CentrePort and in particular the costs of providing Marine Services. Once that contribution is factored into the analysis, the value to CentrePort is raised considerably.

An acquiror would have similar synergistic benefits that it could achieve provided it did not have step-changes in its level of overheads or marine services costs as it increased its TEU volumes. The Napier Port proposal does not factor those synergies into its analysis.

In summary, the CS business is a low return business that has not historically achieved a return commensurate with its cost of capital, stand alone. However, it is a key strategic asset and CentrePort being a full service port has been endorsed by its shareholders.

[redacted]

Source: CentrePort Container Services Impact, KPMG, 21 March 2021;

Potential container port consolidation and collaboration

Consolidation within the wider NZ port industry is likely to occur in the container businesses as shipping lines shift to larger vessels and seek to call on lesser ports in New Zealand. CentrePort has the opportunity to consider collaboration options to position itself to better leverage its CS business

Consolidation of ports and terminals has happened in a number of markets globally as the shipping industry continues the trend toward larger container ships and greater aggregation of power within the shipping lines.

The impact on global shipping trade has been a desire by the shipping lines to have fewer calls to ports. Some ports are unable to support the larger ships.

Further, as seen through the Covid-19 pandemic, New Zealand as a country is not in a strategically strong position with regard to the international freight flows and position with the international shipping lines. The majority of freight internationally flows "east-west" and the "north-south" trade is not as strategically important to the shipping lines.

We anticipate growing competitive pressure within the ports sector as a result of the demands of international shipping lines and the need to meet those demands for the benefit of the ports and their customers.

The resurgence of coastal shipping will also assist in meeting those needs and CentrePort can play an important part in that shipping. CentrePort's current strategy is to remain as a full service port and has invested in assets and operations outside the Wellington region to facilitate growth in its CS business.

We highlight this at this stage of the report to contextualise the Napier Port proposal and its analysis, including the potential counterfactual(s).

Currently, many of the container ports are facing capacity constraints. Each has long term growth initiatives and seeks to grow its own capacity and infrastructure e.g. Napier Port's recent $170m investment into its new 6 Wharf.

Looking for options that enable greater utilisation of existing assets and avoiding costly infrastructure builds (or at least a coordinated development of capacity across the port sector) has benefit across the sector, provided appropriate land transport (particularly rail) and coastal shipping can facilitate any collaboration and coordination across the sector.

Shippers will look to new and alternative shipping options if they are provided competitive pricing and a greater level of service. Collaboration has the potential to provide value adding solutions to shippers and greater returns on assets employed to the port companies.

Material collaboration or consolidation will likely require regulatory approval (Commerce Commission, under the Commerce Act, if there is considered to be a risk of a material lessening of competition, or risk of such a lessening).

3

Assessment of Napier Port Proposal

Summary of Napier Port proposal

Napier Port's approach to CentrePort to collaborate with regard to lower North Island container and log trade is in effect a proposal for an outright acquisition of CentrePort's Container Services business. How CentrePort would retain any influence over relationships with customers or ongoing container operations in Wellington is not clear

There have been previous approaches by Napier Port to 'collaborate' with CentrePort in relation to its container business, and potentially its log business. In this latest approach it appears that 'collaboration' effectively means all CenterPort's current container trade would be expected to go through Napier Port, less any attrition as a result of the customer (shipper) preferring an alternative port (assumed to be primarily South Island customers).

The most recent approach in January 2022 contained further analysis and quantification of the benefits that Napier Port considered its proposal provided CentrePort. In total Napier Port estimated that collaboration with CentrePort across containerised cargo could deliver +$350m additional value for CentrePort (with additional, but unquantified, value if collaboration with respect to log cargo was also included).

Napier Port's proposal claimed to:

- share half of the benefits accruing to Napier Port with CentrePort via a direct shareholding in Napier Port, enabling CentrePort to share in Napier Port capital and dividend growth
- a structure which will enable CentrePort to maintain influence on behalf of their container cargo customers and region.

The key components of the $350m Napier Port value assessment are:

- avoiding ongoing losses from the CS business, which it estimates at $90m;
- avoidance of major container capex spend which it estimates will be c.$170m (net of the infrastructure levy);
- release of container terminal land for alternative use, which it estimates at $67m; and
- shares are issued in Napier Port to a value of $23m, being 50% of the assumed benefits accruing to Napier Port.

Napier Port also suggests that collaboration on lower North Island trade would:

- enable CentrePort to materially improve its returns on its container operations and remove the implicit ratepayer subsidy on CentrePort's container operations;
- enable the release of strategic port land and funds allocated to the container terminal upgrade to alternate purposes;
- be operationally feasible across both ports and landside transport activity and would not materially impact lower North Island cargo owners currently utilising CentrePort; and
- deliver environmental benefits via a reduction in carbon generation.

It should be noted that the Napier Port analysis is based on publicly available information and any insights that its officers or directors have in relation to the operation. It is not based on inside or management information (hence it is to be expected to contain inaccuracies or misinterpretations of positions). The proposal is subject to detailed due diligence.

On the next page we summarise the key components of value and our approach to assessing the merits of the Napier Port proposal.

Approach to assessing the Napier Port offer

The merits of Napier Port's proposal is assessed on the following pages against financial, value and strategic objectives

Metric	Comment	Reference
Methodology to assessing value of business	A discounted cash flow analysis is used by Napier Port to assess value of the CS business stand-alone. It assumes a negative free cash flow throughout the earnings period and hence capitalises a terminal year negative free cash flow. It does not provide for return to full service or sufficient timeframe to generate positive operating cash flows.	Refer page 19
Growth projections	A key driver of value is the future growth prospects with respect to container volumes, CentrePort and Napier Port have markedly different assumptions. Napier Port's assumptions are too understated in terms of growth	Refer page 20
Capital expenditure	Napier Port has assumed $200m of capex over the financial years FY22 and FY23, significantly above CentrePort projections [redacted]	Refer page 20
Unavoidable costs	Napier Port assumes that only $1.5m of costs currently allocated to the CS business are unavoidable, [redacted]. Napier Port does not factor the unavoidable costs into its calculations of value.	Refer page 21
Land	Napier Port attributes $67m of value to land that it considers could be released if CentrePort exited the CS business. CPL/KPMG note that the timing and value are both uncertain and strategically to the port it would lose considerable capacity	Refer page 22
Value to Napier Port	The detail behind the assumptions outlined is not provided but is stated to total to $46m, of which 50% is shared with CentrePort, by way of Napier Port share issue. There is no assessment of synergies, reasonable growth or rerating of Napier Port from the 'acquisition'.	Refer page 23
Strategic alignment	An assessment of the strategic merits of the proposal against the stated strategy of CentrePort and GW	Refer page 26
Other considerations	Other factors for consideration include the impact of carbon emissions, congestion (or potential reduction in that) and other transport impacts	Refer pages 24,25,27

Napier Port's methodology to assess value

Napier Port seeks to frame its proposal to CentrePort with an unrealistically high headline value of $350m based on avoided costs, limited value exchange and release of assets (land) for alternative use, all of which can be critiqued

Approach to determining value - DCF

- Napier Port's approach to assessing value has been to construct a high-level discounted cash flow analysis of the CS business. That analysis is based on a 9 year projection period with terminal value in year 10 and calculates that:
  - The cash flows over the 9 year period total a present value of -$216m inclusive of Napier Port's assumed capital expenditure
  - The terminal value is calculated as -$43m [redacted].
- The assumptions underpinning that analysis are naturally at a high level and are further discussed in the following pages.
- KPMG's assessment of this analysis is that:
  - [redacted]
- [redacted]

Napier Port's assumptions as to volume growth and capital expenditure

Napier Port's assumed volume projections for CentrePort are much lower than KPMG's and its capital expenditure forecasts much higher in absolute terms and assumed to be incurred in the near term - both negatively impacting assessment of value

TEU volume

- CentrePort's TEU volume was ~128,000 in FY16, immediately prior to the Kaikōura earthquake. The business has yet to return to those levels.
- With the completion of the Container Berth Reinstatement project, CentrePort is looking to accelerate container [redacted]
- [redacted]
- In comparison, Napier Port assumes a starting position of 93,000 TEU in FY20, increasing in line with Bloomberg NZ Real GDP forecasts and long term assumption of 2% p.a. On those growth rate assumptions the TEU volume is expected to reach 137,200 in FY40.

Projected TEU volume	FY40
Napier Port[1]	
Projection	137,203
SGS[2]	
[redacted]	[redacted]
KPMG[3]	
[redacted]	[redacted]
[redacted]	[redacted]

Capital expenditure

- The CentrePort Regeneration Investment Summary (published by KPMG in May 2021) outlines CentrePort's key planned container investments over the next 10 years, [redacted]
  - [redacted])
  - [redacted]
- [redacted]
- The Napier Port assessment assumes $200m of capex over FY22 and FY23, grossly in excess of the amounts assumed by CentrePort/KPMG.
- [redacted]

Other investments

- The Napier Port proposal also does not take into consideration CentrePort's investment in Direct Connect (or its subsequent JV with Port Marlborough with regard to the development of an inland port in Blenheim).

Napier Port's value calculations do not include unavoidable costs

CentrePort notes that the CS business contributes positively to met the costs of many aspects of its operations including Marine Services and administrative functions. It argues that many of these costs are unavoidable and hence CS' value to Centreport is much greater than its reported net cash flows

Unavoided costs

- The impact of the loss of CS's operating cash flows to meet certain costs of operating CentrePort is greater than the reported earnings of the CS business as highlighted above and previously.
- [redacted]

Other costs

- The impact of the divestment of its CS business would also have a number of one-off costs to CentrePort including the following items calculated by KPMG:
  - [redacted]

Napier Port assumed land value

A key component of Napier Port's assumed $350m of value that can be unlocked is $67m of assumed land release, being its assessed value for 8ha of land associated with the Container Terminal. This means Napier Port sees no retention of the CS business at CentrePort and it would be highly unlikely for it to ever return once the land is otherwise used

Assumed land values

- Napier Port has included in its value assessment that CentrePort could potentially realise land to the value of $67m. This is based on the assumed release of 8ha of land available for redevelopment.
- KPMG's assessment of this potential is that:
  - The land that could be made available is 'an enclave of a working port' and hence limited in its use. Once remediation of the land, port reconfiguration and stormwater remediation was undertaken there would be limited net value; and
  - Any further value that may be able to be realised would not be able to be leveraged until after Bluebridge relocates from the inner harbour. Taking that, and more extensive reconfiguration and strengthening into account, KPMG notes that the 'timing and net value of the land release cannot be reliably estimated'.
- We note that CentrePort has included in its regeneration plans the potential redevelopment of the inner harbour, as illustrated by the plan opposite. While this is a different area than that occupied by the CS business, it runs adjacent to CS terminal. Based on a desk-top evaluation, we consider it questionable that CentrePort would wish to divest further land from a strategic perspective, particularly given the capacity constraints that many of the port operators in the North Island are experiencing.

Other considerations

- Noting that the release of this land is uncertain with respect to timing (and no discounting of that assumed cash flow has been undertaken) and also there would be considerable costs to make the land available, it is also worth noting:
  - CentrePort is highly unlikely to be able to be able to 'acquire' further land for its operations should it seek to in the future. Reclamation of further land is unlikely to be permissible or economically viable.
  - Should the land be released, it would be considered lost to port operations in the future.

Value to Napier Port of acquiring CentrePort's TEU volume

Much of the Napier Port analysis is based on the purported benefits to CentrePort however little detail is provided as to the value that Napier Port would create through the substantial increase in TEU volume through its port

Value uplift to Napier Port

- Napier Port currently handles approximately 276,000 TEUs (FY21), and these are a mixture of full and empty, refrigerated and ambient containers, imported and exported.
- An approximate EBITDA/TEU is not accurately able to be estimated based on publicly available information. However, we note that Napier Port is very much orientated to export (in particular logs) whereas Centreport is a more balanced import/export port.
- The financial impact to Napier Port of increasing its TEUs handled by potentially over one-third will be significantly greater than the $46m ascribed in the proposal submitted.
- In the following table we illustrate the potential value impact to Napier Port at varying levels of EBITDA/TEU and volumes of TEU. This calculation is undertaken at Napier Port's approximate market trading value at the time of writing of 17.7x EBITDA.
- This analysis does not include any potential adjustment to the value of Napier Port from becoming a considerably stronger port, with far greater reach in the central and lower North Island, which could be assumed to occur, all else remaining equal.

		TEU Volume				
	EV ($m)	80,000	100,000	120,000	140,000	160,000
EBITDA per TEU ($/TEU)	25	35.4	44.3	53.1	62.0	70.8
	50	70.8	88.5	106.2	123.9	141.6
	75	106.2	132.8	159.3	185.9	212.4
	100	141.6	177.0	212.4	247.8	283.2

Other considerations

- The approach by Napier Port also has a significant element of defensive value to it. Napier Port has invested heavily in the construction of 6 Wharf - a total of c.$170m.
- The increased capacity of Napier Port needs an increase in volume to support the capital that has been deployed.
- Given the $170m of investment, the offer of $23m of Napier Port shares appears light given the potential one-third uplift in volume that may be generated.

Share scrip consideration

- The proposal also states that CentrePort would 'share' in the value added by way of the shares offered in consideration for the CS business. The shares offered would equate to c.4% of the Napier Port share capital which would mean a considerable dilution in the sharing of any upside that came from further 'collaboration' or the repricing of the Napier Port shares by the market.
- A 4% shareholding in Napier Port is not a strategic holding and may therefore not be considered a long term hold by CentrePort. The divestment of a 4% stake at full value may also be challenging but could be released over time without notice to the market (other than CentrePort reporting requirements) although it may create a modest overhang in the market, suppressing value for a period. Napier Port may seek to place limits on CentrePort's ability to realise those shares in a short time period.

Operational feasibility

The proposal from Napier Port states that the redirection of cargo from Wellington to Napier is operationally feasible

- We understand that a large part of CentrePort's cargo originates from outside the Wellington region. As a consequence redirection of cargo to Napier Port may, for may shippers, be possible (at least the central and lower North Island shippers).
- Napier Port states that it would be 'operational feasible' for it to assume the Container Services to those shippers, with a large part of the transport services provided by KiwiRail. Assumptions or statements are made as to the positive implications of those changes on the rail network.
- There are a large number of containers that are currently trans-shipped, stored and handled via CentrePort that will need to be added to the transport network to get them to Napier Port under the proposal.
- In conversation with CentrePort management, it is not certain that KiwiRail has the capacity on its network or with its rolling stock to assume the additional container volumes.
- KPMG suggest that, even if it is operationally feasible over the longer term, it would require investment in transport capacity and port infrastructure which would require time and capital, noting:
  - transportation by road would need additional trucks, drivers and depots; and
  - transportation by rail would need more rolling stock and upgraded tracks; and
  - on-port operations would need further in-land development.
- A key consideration for any discussions as to 'collaboration' is the extent to which the various ports and transport providers have capacity. Based on reported experiences that shippers are facing at the current time and CentrePort management information, many shippers are facing increased challenges with securing shipping and logistics services.
- CentrePort management have indicated that they have secured or are confident of securing export container customers within the immediate Napier Port catchment and also in the upper North Island through collaboration with shipping lines, shippers and KiwiRail. A key component of this ability to secure such custom is based on overcoming capacity constraints at other ports, including Napier Port.
- For completeness, it should be noted that CentrePort does provide a subsidy for certain rail services, although the Napier Port proposal assumes that subsidisation will need to continue for many customers to ensure that they are not negatively impacted by its proposal.

Other considerations

The Napier Port proposal states that it will deliver environmental benefits through a reduction in carbon generation as well as reduced Wellington freight traffic congestion. CentrePort is also a strong enabler of economic activity within the Wellington Region, with an independently supported analysis that it supports 20,000 jobs in the Wellington region

Emissions and environmental considerations

- The Napier Port proposal states that it will result in positive environmental impacts, particularly as a result of fewer emissions.
- KPMG references earlier analysis that compared the emissions produced by the CS business with a counterfactual that CentrePort did not have a CS business and all North Island containers are transported through Napier Port. Under that analysis KPMG estimates that total emissions may be double under the counterfactual.
- While these two positions are at opposite ends of a argument, an assessment of which is more correct requires access to substantial data and a detailed study. A key component of the carbon emitted is the inefficient relocation of freight and empty containers. A 'true' collaboration between ports minimising the inefficiencies should be more likely to reduce emissions than either the status quo or Napier Port's proposal.

Congestion and transport benefits

- Napier Port asserts that its proposal will reduce freight congestion on the rail network in particular. There is little evidence to support the assertions made in relation to the benefits associated with the loss of containerised freight would benefit the Wellington region, particularly given the volumes on the rail network, which is proposed to be the predominant means of transporting freight out of CentrePort to Napier Port. A detailed assessment in conjunction with KiwiRail would be needed to test its capacity constraints.

Economic considerations

- GW retained SGS Economics and Planning to review the CentrePort Redevelopment Strategy. That review considered the potential to relocate the CS business to Port Napier. It is worth noting the following comments in that report:

  "Relocation of container activity to Port Napier undermines sustainability of CentrePort and has economic impact on the Wellington Region"

  "There is also serious negative economic impact - on both employment and economic activity - for the Wellington Region of the proposed relocation of container trade, as well as increased freight costs for importers"

- In considering the financial case for such a move, which recognised the substantial capital expenditure required to fully rebuild the business, SGS noted "the shareholder objectives are not well achieved by this proposal". [redacted]

  [redacted]

Greater Wellington CentrePort Strategy

While the proposal potentially provides opportunity for Greater Wellington to reduce the capital employed in CentrePort (but to a far lesser extent than Napier Port suggests) the proposal does not align with other GW strategic objectives

GW's vision is for an extraordinary region, thriving environment, connected communities and resilient future. GW's ultimate objective is to maximise its return on investment to minimise the need to increase rates across the Wellington region.

WRC is wholly owned by Greater Wellington and was established to manage GW's commercial investments. WRC owns 76.9% of the issued share capital of CentrePort.

The primary objectives of WRC are to:

- support Greater Wellington's strategic vision;
- operate successful, sustainable and responsible businesses;
- manage its assets prudently; and
- where appropriate, provide a commercial return.

Source: Greater Wellington Regional Council 2021-2031 Long Term Plan

WRC CentrePort Strategy

WRC's strategic objectives for CentrePort's ongoing operations are:

- Secure Port development as enabler of regional economic growth;
- Port as a strategic asset to promote community benefits;
- Optimise return on Council's capital;
- Secure capital for port investment and future growth; and
- Deliver open access to service operator to all Port users and other stakeholders.

Source: SGS CentrePort Investment Strategy Review, 2020

Strategic fit of potential transaction

Considering the specific proposal against GW's CentrePort strategy our key observations are:

- **The proposal provides the potential opportunity to reduce the capital invested into CentrePort.**
  - CentrePort will not require the same level of capital expenditure if not operating a CS business, reducing the total capital required to be invested in the Company and providing capital for further GW investments. As CentrePort is consolidated with GW for financial reporting purposes, a reduction in debt or retention of further cash by CentrePort has a direct impact on GW's group financial position.
- **Uncertain impact on local businesses** - arrangements will need to be implemented to control the future costs of shipping (imports and exports) to businesses in the Greater Wellington region, who may (will likely) face additional costs and supply chain inefficiencies over time.
- **Will restrict growth within CentrePort and its operational capacity** - the proposal results in a divestment of the CS business and the loss of the upside potential in container operations, within little or no future control over those operations.
- **We anticipate consolidation (or greater collaboration) in the port sector** and a transaction now, without testing the market for other options, is unlikely to realise full value for CentrePort or its shareholders. We understand that CentrePort is seeking 'true' collaboration to address capacity issues in the port industry and better utilise port infrastructure and coastal shipping. Given the disruption to shipping lines and international freight movement in recent years, together with increased focus on coastal shipping, we anticipate a strong interest in genuine discussions collaborative options from other port operators.

Summary of Napier Port proposal - value considerations

The Napier Port proposal undervalues the CS business, is not aligned to the strategic objectives of GW and does not provide for the protection of shippers and the regional economy. We assign a summary R/A/G evaluation to each factor

	PwC Assessment	Comment
Methodology	Red	Does not fairly portrait the value of the CS business due to the capitalisation of earnings while still negative and not addressing or reflecting the matters described below. While CS business may struggle to meet its cost of capital overt longer term, to describe it as a business worth -$260m is unrealistic.
Growth projections	Red	Does not factor in growth to extent likely, particularly given the starting position is one where CentrePort is emerging from the disruption of the last 6 years (post earthquake). Strategic initiatives undertaken by CentrePort including Direct Connect and Marlborough joint venture with Port Marlborough evidence ability for CentrePort to grow above Napier Port's assumed TEU levels
Capital expenditure	Red	The $200m of assumed capital expenditure is both inaccurate and also not totally avoidable. Napier Port also 'front-ends' the capital expenditure increasing its impact on its negative value determination. [redacted]
Unavoidable costs	Red	Napier Port is aware that certain costs will be unavoidable and includes those in part of its analysis (to $1.5m) but does not include such costs in its calculations of potential value. The non-consideration of these costs understates the value to CentrePort of the CS business from a financial perspective.
Land value	Red	The proposal assumes a near term release of 8ha of land, permanently removing CentrePort's ability to operate a CS business in the future. CentrePort's position is that even if land could be released, it would be some 6-10 years away and require substantial work to rectify the ground and stormwater, hence reducing the value considerably.
Value to Napier Port	Red	We consider the value uplift to Napier Port will likely be multiples of that presented in the proposal. Not only should Napier Port include the synergies it anticipates extracting, but also the potential strategic value that will likely be reflected in Napier Port's share price should the acquisition of CentrePort's CVS business be effected.
Overall value summary	Red	We consider the proposal to significantly understate the value of the CS business and not represent a fair value exchange for the divestment of the business. As noted above, the value potential for Napier Port is considerably higher than that presented and the means of 'sharing' upside via a c.4% in Napier Port is highly dilutive to be practically of limited value.

Summary of Napier Port proposal - qualitative considerations

The Napier Port proposal undervalues the CS business, is not aligned to the strategic objectives of GW and does not provide for the protection of shippers and the regional economy

	PwC Assessment	Comment
Strategic alignment - CPL		Prevents CentrePort from being a full service port, undervalues the business and eliminates ability for future CS business.
Strategic alignment - GW		Does not align with GW's stated objectives of encouraging economic growth. Economists advice is that the loss of the container services business in Wellington will likely lead to businesses relocating over time and consequential job losses.
Capacity considerations		Napier Port asserts it has the capacity and does not need to build any further infrastructure, although it will have to further develop its Whakatu Inland Port if demand increases above forecast. Present capacity constraints are evident throughout the port and transport sector. CentrePort's currently provides container capacity which shippers are seeking to utilise.
Shipper benefits		Economic studies (SGS) suggest that the loss of CentrePort's CS business to the Wellington region will significantly impact the service to shippers, as well as the cost of that service. CentrePort's CS strategy is to collaborate with other ports to address supply constraints and increase service standards to shippers, attracting custom to it.
Environmental considerations		Rated amber as the assertions put forward by Napier Port are not proven. The KPMG analysis suggests that the emissions assertions can not be supported however a greater study would need to be undertaken to confirm that.
Transport considerations		Similarly, the transport benefits asserts by Napier Port are not able to be proven at this stage. Given the close working relationship between KiwiRail and CentrePort and the increasing use of the KiwiRail network to facilitate collaboration or attraction of containerised cargo from outside the Wellington region, this may also be challenging to support.
Concept of collaboration		The concept of two competing ports collaborating to generate greater returns on assets employed and provide better and more effective services to its customers is to be encouraged (green rating) but the proposal submitted is not a collaboration and hence the red rating.
Commerce Commission		Noting that any collaboration that has the potential to significantly reduce competition will need Commerce Commission clearance or authorisation. Obtaining that is both time consuming and costly process.

4

Alternatives to the Napier Port proposal

Alternate options to derive further value from the container operations

If CentrePort did wish to explore alternate options for its Container Services business a number of options could be considered to ensure the highest value is achieved

While we are concerned with the face value merits of the Napier Port proposal, we do consider it important to consider the benefits of such alternatives for CentrePort's Container Services business, particularly given the low return on investment being achieved (and forecast) from these operations.

Alternative options could take different forms and originate from different parties. However, we expect those of highest value (both financial and qualitative) to CentrePort and its shareholders will require retaining some existing CS capabilities and operations. We note that other ports are currently operating with capacity constraints. A coordinated approach to utilising existing assets and avoiding costly dupliaction would be beneficial to the port companies and their shareholders. Options include:

- **Further negotiations with Napier Port on a revised version of this or alternate offer**
  The Napier Port proposal currently under values the container operations of CentrePort and seeks to remove all container trade from CentrePort. Further engagement with Napier Port could lead to the development of a proposition which is much greater collaboration, reflecting the import and export role that CentrePort plays in the lower North Island and top of the South Island. Both value and collaborative roles will need to be addressed.
- **Partnership with another domestic port operator**
  CentrePort could look to partnership options with another domestic port operator. Given the strong competitive nature of Napier Port in the Lower North Island, greater collaboration may be possible with an upper North Island port (Port of Tauranga or Ports of Auckland). A closer collaboration with one or both of these ports may provide opportunity to optimise CS assets at both ports, as well as collaborate with KiwiRail to provide efficient services to all customers.
- **Sale to another domestic port operator**
  This structure is similar to what is currently proposed by Napier Port but would allow other domestic port operators to participate and offer bids. This would provide a degree of competitive tension that is likely to drive an improved outcome for CentrePort and its shareholders.
- **Partnership with an international operator**
  CentrePort could look to partner with an international operator. The partner may be able to improve current operations and facilitate greater relationships with key players in the international shipping industry.

Before engaging with wider parties it will be important to understand the potential economic benefits from consolidation or partnerships to CentrePort. A further assessment of other alternate options (eg redesign of the CS operating model) should also be considered in light of the potential collaborative options to ensure the highest value is able to be extracted, should such initiatives be pursued.

Benefits of running a wider process

CentrePort could consider undertaking a wider process (a "strategic review") to solicit interest in its CS business in order to maximise the potential value / benefit realised. The exact nature and scope of any transaction could be varied to best align to the objectives of CentrePort and Greater Wellington

Alternative structures

- By executing a wider process there is likely to be more diversity in proposals, which may be better aligned to the strategic objectives of CentrePort and Greater Wellington
- The industry is changing, in particular the shift to larger vessels and consolidation, as well as developments in coastal shipping. Alternative structures can help better position CentrePort to take advantage of these changes and retain capacity at CentrePort.
- CentrePort has inland port / feeder arrangements which will increase throughput materially over time.

Competitive tension

- The Napier Port approach was unsolicited and has been forcefully pursued. Should a wider strategic review be undertaken it will provide a degree of competitive tension, which is likely to drive a higher value outcome.
- Such a review should also enable CentrePort to retain control of the process, driving outcomes aligned to its objectives.
- A competitive / multiparty process reduces some transaction risks, although faces the risk of sharing greater data with current competitors.

Opportunity for alternative solutions

- Wider involvement in discussions can facilitate innovation potential structures or future business/partnership models which could be beneficial to Centreport
- Other parties may also bring existing relationships with key players in the shipping industry, which help deliver other favourable outcomes for CentrePort.

Through discussions with management we understand that many initiatives are underway. The timing of any such wider process would need to be considered in light of the CS business's return to full operational service potential (capacity) and any competitive responses that might result from knowledge of such a process. Doing 'nothing' in the short term is an option.

Potential other parties

There are a number of potential other parties that may be interested in partnering on CentrePort's Container Services business. However, actual appetite will need to be tested further.

	Considerations	Potential parties (non-exhaustive)
Domestic Port operators	• Positions CentrePort ahead of any further consolidation within the port industry • Options to optimise freight flow within the region • Potential misalignment between the interests of CentrePort and its partner • Ensuring each party has adequate oversight and that joint funding is agreed upfront with clear responsibilities	Port of Tauranga; Ports of Auckland – Tāmaki Herenga Waka; Napier Port – Te Herenga Waka o Ahuriri
International port operators	• Potential improved relationship with key shipping lines, positioning CentrePort well for any future consolidation • Need to ensure alignment between parties, including incentives for partner to align to CentrePort objectives • A number of shipping lines also act as terminal operators, which could position CentrePort well in the face of future consolidation • No ports in NZ are currently partnered with international operators in such a manner.	PSA; DP World; APM Terminals – Lifting Global Trade; COSCO Shipping; TiL – Terminal Investment Limited

The potential for large infrastructure investors to invest in the CS business is limited given the relatively small of the business. However, some of those parties may be relevant to the potential to invest in CentrePort as a whole should that exist, subject to the nature of the investment and the potential to deploy significant amounts of capital and add value to their investment

Potential next steps

[redacted]

5

Shareholding options

Overview of Horizons' shareholding

Horizons own 23.08% of CentrePort as a result of the reforms of the Port sector that occurred in the late 1980s. It is not a heavily influential or strategic shareholding given GW's nearly 77% stake effectively controls the Company

Background

Horizons' acquired its 23.08% shareholding in CentrePort at the same time as Greater Wellington, as a result of the reforms under the Ports Reform Act 1988. Those reforms transferred the ownership of the commercial assets of the respective Harbour Boards to port companies established to carry out port related commercial activities and control the ownership of those assets.

Horizons' 23.08% shareholding is a meaningful but not particularly strategic stake in CentrePort, given the controlling nature of the Greater Wellington's nearly 77% shareholding. However, we understand there to be a collaborative relationship between the two Councils in relation to their mutual interests in CentrePort.

Horizons' Long Term Plan (LTP) and Investment Policy have both acknowledged that it is considering its commercial interests and ownership models in relation to CentrePort. As GW's officers have made us aware, there have been discussions between Horizons and GW as to whether GW has an interest in acquiring Horizon's shareholding in CentrePort.

Horizons' Investment Policy outlines the Council's objectives specific to its CentrePort holding, namely:

- To maximise the value of Horizons' equity in CPL;
- To ensure the export and import sectors of the region are serviced by efficient ports; and
- To ensure CPL is operated as a successful commercial port.

Horizons' current LTP specifies the shareholding as a strategic asset under the Significance and Engagement Policy. As such, consultation processes will have to be undertaken by Horizons should there be interest by the Council in selling its shareholding.

CentrePort's importance to Manawatū-Whanganui

Relative to the time period when Horizons obtained its interest in CentrePort, there are other options for importers and exporters to meet their container service needs, including Ports of Auckland, Port of Tauranga and Napier Port, in addition to CentrePort.

Arguably the strategic rationale for retaining the shareholding to support its export and import sectors is not as strong as it was. Further, the shareholding has become a considerable asset within the MWRC Holdings' Investment Assets (FY20 carrying value of $70m) and a high concentration of the portfolio in that single investment.

Considerations for Horizons

Key considerations for the Horizons Council include:

- **Requirements around public consultation** - As noted, Horizons is limited as to how it can realise the shareholding given its designation as a Strategic Asset. Any process to divest will require public consultation.
- **Wider impact on the Horizon region** - As noted above, Horizons' strategic rationale to hold the investment is potentially not as strong as it was, given the other options available for importers and exporters in the Manawatū and Whanganui regions. Further CentrePort has invested in (commercially committed to) the region to facilitate the development of its container business.
- **Release of capital from low yielding, high concentration risk asset** - Horizons has a high concentration of its investment assets in its Centreport shareholding. A realisation of that asset could provide capital for redeployment into higher returning investments (given the low yield on the CentrePort shareholding at present - c.$1.4m dividend each year).

Considerations with respect to Horizons' shareholding

Horizons' desire to engage around its shareholding in CentrePort provides an opportunity for Greater Wellington to consider its options, particularly as to whether maintaining a c.77% shareholding is necessary to achieve GW's objectives.

Shareholder objectives

It is first important to distinguish between:

a) Options that potentially enhance CentrePort's business and therefore drive shareholder value. The consideration of options around CentrePort's Container Services business fall within this category - these can be addressed by CentrePort itself, with the support of its shareholders; and

b) Options with respect to ownership control and structure that shareholders could undertake to seek to either release shareholder capital and/or drive shareholder value through shareholder change.

The second category relates to the future ownership of CentrePort and whether the existing shareholding structure is able to achieve that to the greatest extent possible. In reality, this is a matter that will be driven by Greater Wellington as the controlling shareholder and in light of the potential desire for Horizons to divest some or all of its shareholding.

The question for Greater Wellington is whether the acquisition of Horizons' CentrePort shareholding could add value to GW and also what are the potential alternative options for Horizons should it wish to realise its investment.

We consider it very beneficial to both parties to be in a dialogue as to their options and the discussion outlined in this section assesses, at a high-level, the options that GW has available to it.

Greater Wellington options

The potential for Horizons to divest its shareholding in CentrePort provides Greater Wellington a number of options:

- Acquire the shareholding;
- Do nothing;
- Facilitate a transfer of the Horizons shareholding to a third party (by not frustrating such a transaction); or
- Seek a long-term strategic partner for Greater Wellington to grow shareholder value and enhance wider regional community objectives.

On the following pages we summarise the advantages and disadvantages of these options. And provide examples of alternative capital options (for growth or capital release).

In each of the options analysed we assess:

- Value uplift (or arbitrage) potential for GW;
- Complexity and control;
- Capital needs;
- Risks;
- Capital returns.

Assessment of options for Horizons' shareholding

[redacted]

Alternate ownership structures

[redacted]

Strategic Investor Case Study - Wellington Airport

Wellington International Airport (WIAL) is an example of a key infrastructure asset that, while under majority ownership by Infratil, has delivered a commercial return and large benefits to the wider region. Wellington City Council has benefited from the value uplift driven by the majority shareholder

Overview

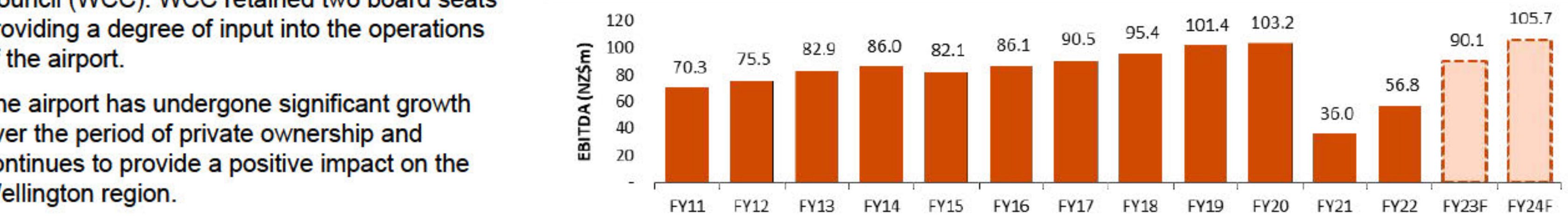
Since 1998 the airport has been 66% owned by Infratil and 34% owned by Wellington City Council (WCC). WCC retained two board seats providing a degree of input into the operations of the airport.

The airport has undergone significant growth over the period of private ownership and continues to provide a positive impact on the Wellington region.

[redacted]

EBITDA

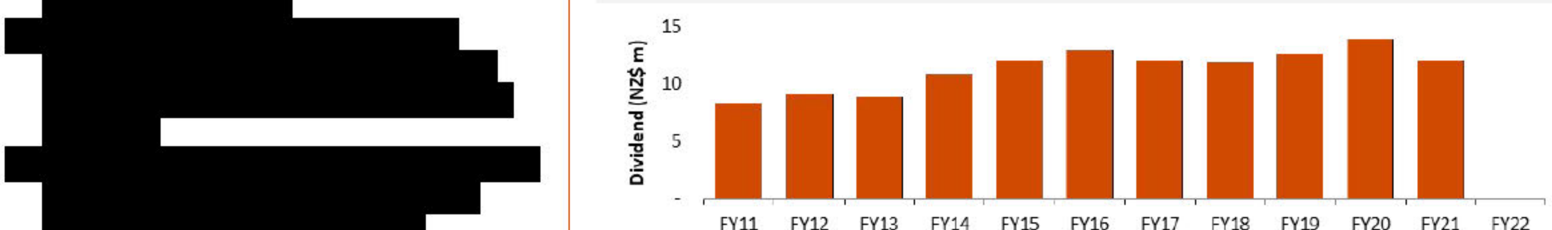
Between FY11 and FY20 EBITDA grew from $70.3m to $103.2m at a CAGR of 4.4%. FY21 and FY22 EBITDA were severely impacted by Covid-19. However, earnings are expected to return to pre-Covid years in following periods as domestic and international travel returns.



Sources: WIAL financial statements, Infratil investor day presentation Feb 2021

Dividends paid to WCC

Between FY11 and FY20 dividends grew from $8.3m to $13.9m at a CAGR of 5.8% and a median payout ratio of 52.5%. No dividends were paid out in FY22 but are expected to resume in future periods as earnings begin to improve post-covid.



Sources: WIAL financial statements

Summary of options re Horizons' shareholding

Horizons' shareholding provides an opportunity for Greater Wellington to consider value enhancing options for CentrePort. An acquisition of the 23.08% shareholding without a wider strategy is not compelling.

Summary comments

- Horizons' shareholding is not strategic given GW's c.77% shareholding effectively controls CentrePort
- [redacted]

Leveraging GW's position

- Greater Wellington has the ability with the size of its current shareholding, to offer a greater, more attractive, stake in CentrePort to a strategic investor.
- [redacted].
- The Wellington International Airport case study demonstrates the potential for value creation with a specialist commercial/infrastructure investor partners with a local authority.
- The potential pool of such investors includes both infrastructure investors and trade investor (i.e. other port operating companies). One similar example is the sale of 50% of PrimePort (Timaru) to Port of Tauranga.
- The New Zealand port sector is highly competitive but also inefficient from a perspective of coordinated use of infrastructure assets. Hence a consolidation of port operations or true collaboration to better utilise the assets is recognised as a strategically logical outcome.
- Should GW not wish to pursue such options, this does not preclude CentrePort from exploring value enhancing collaboration, particularly with respect to its Container Services business as it is currently seeking to do.

A

Appendix

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Thank you

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[redacted]

Tēnā koe [redacted]

Lower North Island Freight and Infrastructure Proposal

Thank you for the letter of 12 May from Todd Dawson, Chief Executive and subsequent confirmation from yourself as Board Chair on 17 May.

In your letter you asked Council as the majority shareholder to consider a proposal to redirect all containers through Napier Port in return for an allocation of shares in Napier Port. You indicated that the CentrePort Board had previously indicated that they did not support the proposal.

Greater Wellington formally considered your proposal at its meeting on 25 August 2022 and determined that the proposal did not have merit at this time and should not be taken further. This letter is formal confirmation of this decision.

In reaching our decision we received expert independent advice on the merits of the proposal. This advice was clear that the proposal was not good value and significantly undervalues the strategic value of CentrePort's container business. It also found that there would likely be significant dis-benefits to the continued operation of CentrePort, to the port's customers, to the wider economy of the Wellington region and was likely to result in increased carbon emissions. A copy of this independent advice is attached to this letter and has been made publicly available.

Greater Wellington and CentrePort are both committed to ensuring that the port maximises its contribution to the regional economy and as such we will continue to look for opportunities to build business, including through collaboration with other ports. CentrePort has recently reached a collaboration agreement with the Port of Marlborough as an example of this in practice and are open to other options, including with Napier Port. However, this has to be beneficial to both parties. Your proposal appeared to us to be a very one-sided arrangement driven largely by the need to build Napier's container business having recently invested almost $200million on a new wharf.

Rick Barker, Chair Hawke's Bay Regional Council, and I have organised to meet on 12 September in Wellington to discuss Port collaborative opportunities.

Ngā mihi

Daran Ponter
Chair

cc: Rick Barker, Chair of Hawke's Bay Regional Council
GWRC Councillors

Encl: Independent Advice