19 September 2022

File Ref: OIAP-7-25726

[redacted]

By email: [redacted]

Tēnā koe [redacted]

Request for information 2022-141

I refer to your request for information dated 31 August 2022, which was received by Greater Wellington Regional Council (Greater Wellington) on 31 August 2022. You have requested the following:

- *"a copy of the independent expert report prepared by PwC on the Port Napier proposal to take over CentrePort's container shipping business.*
- *any advice, reports or papers provided by CentrePort to GWRC on the Port Napier proposal to take over CentrePort's container shipping business."*

Greater Wellington's response follows:

Please find attached the documents within the scope of your request as outlined below:

- Attachment 1: CentrePort's Container Services Business – report from PwC
- Attachment 2: CentrePort Container Services impact - summary 20220412 KPMG

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.

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 grounds 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 Local Government Official Information and Meetings Act 1987.

Please note that it is our policy to proactively release our responses to official information 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

Luke Troy
General Manager Strategy
Greater Wellington Te Pane Matua Taiao
100 Cuba Street
Te Aro
Wellington 6011

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.

PricewaterhouseCoopers
10 Waterloo Quay
Wellington 5010
New Zealand

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

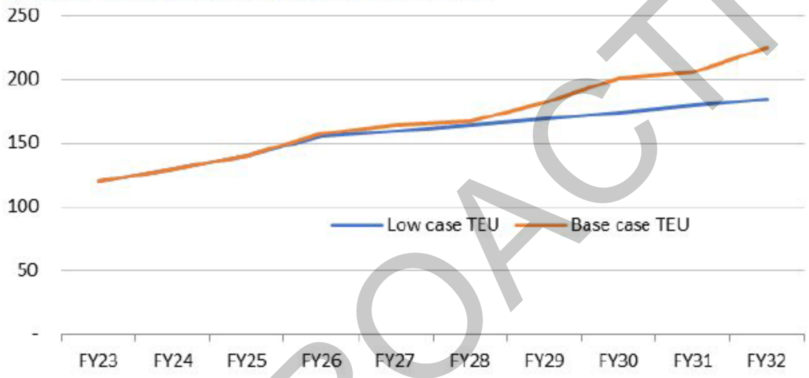
Financial performance

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	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 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	Red	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	Red	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	Red	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	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 CS business be affected.
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 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	Red	Prevents CentrePort from being a full service port, undervalues the business and eliminates ability for future CS business.
Strategic alignment - GW	Red	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	Red	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	Red / Amber	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	Amber	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	Red / Amber	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	Red / Green	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	Amber	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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KPMG

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.

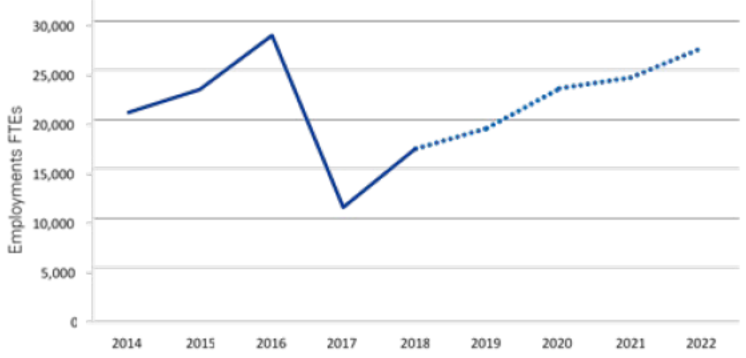
The Proposal, based on the written materials we have seen, implies that CPL would exit the container trade rather than collaborate with NPH. It is unclear how CPL would retain influence over container services for its customers and the region, contrary to the summary statement made in the Proposal.

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).

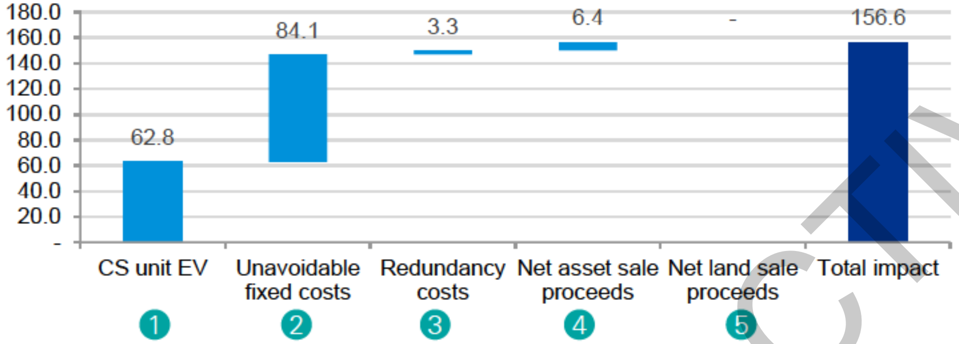
We are aware that port companies use incentives to win business however this cannot off-set a structural disadvantage in costs in the long term. If NPH were to take on some of the increased cost for customers, this may be temporary in the absence of competition from CPL or other ports.

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.