

29 May 2020

Anthony Donald
Chief Executive Officer
Tasmanian Ports Corporation
90 – 110 Willis Street
Launceston TAS 7250

Dear Anthony,

Thank you for the final data we needed to complete our modelling received from Phil Hoggett last Friday. Further information was required in relation to the proposed Freight pricing and this was received on Wednesday of this week.

We now have clarity that there are two main streams of financial proposals from TasPorts:

1. Ongoing volume based wharfage costs; and
2. Provisioning of Berth No 3 for the use of TT-Line.

To ensure the project timeframes are met for the delivery of new ships, we need to separate these two streams.

In relation to volume based wharfage costs, based on our initial calculations, from 2021 the anticipated increase is in excess of 250%. In \$ terms that is moving from circa \$3.5 to more than \$13m in 2021/22. As we have discussed, we find that an unacceptable increase, for no stated improvement or quantity of services from TasPorts. In fact, it was stated by TasPorts that this increase will apply whether or not we move to Berth No 3. Throughout our discussions to date, there has been no valid justification put forward for this level of increase.

TT-Line will need to pass on any increase in fees to our freight clients as well as through passenger fares increases. The proposed fees will amount to an average increase of \$34 for a TEU and \$28 per passenger vehicle.

TasPorts have noted in meetings that they have completed some detailed research which showed that the freight market in Tasmania would be able to absorb these substantial increases in fees. If TasPorts continue to propose these amount of increases, we will need to consult with the Freight Industry Groups and our Freight Clients to ascertain the propensity to pay the pass through of these fees to the end user of their services. We do not believe this will be supported or accepted.

In relation to passenger fares we have already completed substantial independent research to ascertain our passenger price elasticity which identified we are already at the top end of market. We will need to complete further research work to quantify the amount of market contraction which the proposed increases will precipitate. This of course will need to be discussed and presented to the Tourism Industry.

TT-Line's position is that the current volume based wharfage charges should still apply with normal CPI increases annually for the remainder of our existing lease term, and for any new lease. TT-Line will not agree to minimum volume thresholds for fees to be charged.

In relation to the proposed full costs associated with provisioning of Berth No 3 for TT-Line, we have several queries on the data supplied.

We have reviewed the bespoke elements of the document and have asked Paul Davies to discuss with your technical team some aspects that can be removed to reduce the overall costs and complexity for both TasPorts and TT-Line, e.g. Passenger walkway, auto mooring

hardware and the value of a motorcycle cover at \$110k. We also note in the proposal that our back of house staff have not been considered as discussed within the TasPorts building in West Devonport.

Overall, we certainly question the WACC charge of 8.4% and question why there is contingency on top of the margin applied by TasPorts for the project costs which equates to over 32% of the overall project costs.

As you and your Chairman have mentioned before, there are other options that TasPorts are prepared to consider for the structure of this project, and we ask that these be provided in writing before we meet to work through this proposal. I would hope that this can be achieved next week so we can progress as quickly as possible.

We are looking forward to progressing these arrangements as soon as possible for the successful growth of the freight and passenger markets in Tasmania.

Regards,

A black rectangular redaction box covering the signature area.

Bernard Dwyer
Chief Executive Officer

cc: Mr Michael Grainger – Chairman, TT-Line