

Message from the Chairman of the Board
Benny Holland, Jr.

For long-term Galveston residents, it is easy to remember a time when cotton was king and continually flowed through the Port, sugar was unloaded at the Imperial Sugar docks, and when the Port was a national leader in bulk grain exports. It is also easy to remember that four years ago our cruise terminal handled only occasional cruise traffic.

The past two years have seen significant changes along the Galveston waterfront. The Port of Galveston is now in a period of rebirth and dynamic growth. There are several new cargo customers establishing operations at the Port. Additionally, the Port's expanding cruise operations are attracting visitors to Galveston Island, which creates a positive economic impact for the city. A recently completed study conducted by the International Council of Cruise Lines determined that the economic impact from cruise operations in Texas for 2002 was \$445 million. A large majority of this economic impact was due to our cruise operations in Galveston. Our 2003 passenger numbers are significantly higher than in 2002, meaning that a far greater increase in the Port's regional economic contribution is anticipated this year. However, significant investments are required in the Port's infrastructure to allow our customers to expand and grow their operations in Galveston.

The demolition of Elevator B provides land area to support our growth in cruise operations. Area is needed to complete and expand Cruise Terminal No. 2 into a world class facility. It will also enable Port staff to continue to market our cruise terminal to

other cruise lines. We are also cognizant of the need to be environmentally sensitive as the Port redevelops itself. We are using the recycled crushed cement from the demolition of Grain Elevator B to provide the fill needed at that site and at other locations on Port property. Approximately 99% of the material from Elevator B will be recycled, rather than being placed in a landfill.

Looking at general cargo operations, River Materials LLC has commenced operations at Pier 35/36, the site of the former Imperial Sugar Company bulk terminal. This facility is now known as Galveston Bulk Terminals. Their first shipment of bulk product occurred in early December when 27,000 tons of fertilizer was unloaded and transferred to rail cars. While the facility is currently limited to use as an import terminal, River Materials' long term goal is to upgrade the handling equipment to allow for both import and export operations. This will allow for further diversification of our cargo mix.

A new cement handling facility is being developed at Pier 41. Bulk cement will be brought into the facility by rail from Midlothian, Texas. The Holcim (US) Inc. terminal will be operated by Suderman Contracting Stevedores. Cement handled at this new facility will be used to build the new Galveston causeway.

The Port recently completed work at Pier 16 for Del Monte Fresh Produce. Working together as partners, the site was upgraded to provide a safer, more efficient truck loading area. Del Monte's business continues to grow and provides steady employment for our community. The Port continues to work in partnership with Del Monte to facilitate

future growth in their operations and ensure that they will remain a long-term port partner.

While Wallenius Wilhelmsen Lines North America is now temporarily operating at Pier 10, the Port is developing a new facility at Pier 34 which will be completed during the second quarter of 2004. The Pier 30/33 warehouse has been demolished and the Pier 35 warehouse will be demolished shortly. The area will then be fenced and paved with security lighting installed. We look for these improvements to support our long-term partnership and allow us both to prosper and grow in the future.

Bulk grain exports have long been the foundation for our tonnage figures each year and in the past we were very dependent on bulk grain exports for our bottom line revenue. Because of market conditions, we have seen a significant reduction in those exports in recent years. However, future projections from ADM/Farmland are very promising and we currently are working together to expand and diversify operations in Galveston.

At Cruise Terminal No. 1, we are just completing a \$9 million upgrade of the facility, in a public/private partnership arrangement with Carnival Corporation. This innovative financing arrangement allowed the Galveston Port Facilities Corporation to use future revenues from cruise terminal operations to repay Carnival for funds advanced for the improvements. In partnership the scope of the expansion of Terminal No. 1 was developed, which includes a new state of the art passenger loading bridge, and allows the terminal to handle any current vessel in Carnival Corporation's fleet. Carnival, the first

cruise line to take a chance on the market in Galveston, has emerged as a true partner with the Port of Galveston. When Terminal No. 2 is completed in mid 2004, over \$30 million will have been invested in the cruise terminal complex. Plans are underway for the development of Terminal No. 3.

Recently we announced that Princess Cruises and Celebrity Cruises will offer seasonal sailings from the Port next November. Each will offer a different product to the cruising public and give Galveston an even vaster cruise portfolio for today's traveler. The Port continues to market our facilities and it is expected that our cruise operations will continue to flourish. This unprecedented, exponential growth in this area of our business is something that should make all Galvestonians proud.

The Port continues to be proactive in seeking funds to help meet mandated state and federal security requirements. To date, the Port has received \$4.1 million in grants and appropriations from the Federal Government. These enhancements will allow the Port to provide secure Port facilities. As part of this effort, our Police Department headquarters will be relocated to a more central location, in close proximity to the cruise terminal areas. However, additional funds will be required to allow the port to meet these mandates.

A Request for Interest was issued earlier this past year to identify strategic partners to share a cooperative role in the redevelopment of the Port of Galveston. We are currently proceeding through a formal process to determine the interest of prospective partners in

the redevelopment of underutilized Port properties. This will emerge as one of the major keys to our community's future. To the extent that we are successful in bringing the Port of Galveston back to productive economic life, the better the future will be for our children and our community. The Board of Trustees and Port staff are deeply committed to this effort and we welcome our community's involvement. The Port should and will continue to be a major economic force for our city and the Galveston Bay region.

At the Port of Galveston we are progressively and proactively changing the business model of the past. The community should welcome and embrace these changes. Many good things will be happening at the Port in the upcoming years.