NAPIER PORT
Te Herenga Waka o Ahuriri

BUILDING FOR THE FUTURE

ANNUAL REPORT – TE PŪRONGOĀ-TAU / 2019

CONTENTS

HIGHLIGHTS

3.4 MILLION
TONNES OF BULK CARGO HANDLED
–
UP 10.9%

5.5 MILLION
TONNES OF CARGO HANDLED
–
UP 7%

2.6 MILLION
TONNES OF LOG EXPORTS
–
UP 17%

271 THOUSAND
TEU CONTAINERS HANDLED
–
UP 2%

50 THOUSAND
TEU HANDLED THROUGH PORT PACK
–
DOWN 2%

687
SHIP CALLS

$99.6 MILLION

REVENUE

–

UP 8.6%

$5 MILLION

DIVIDEND

–

2.5 CENTS

PER SHARE

$28 MILLION

SPENT BY 115,000 CRUISE PASSENGERS IN HAWKE'S BAY*

** Statistics New Zealand*

70

CRUISE SHIP CALLS

–

UP 22.8%

9,000+

SHAREHOLDERS

CHAIRMAN'S REPORT

MĀ WHERO MĀ PANGO KA OTI AI TE MAHI
With red and black the work will be complete – referring to traditional kowhaiwhai (weaving inside of meeting houses) which demonstrates that if everyone does their part, the work will be completed.

Tēnā koutou e ngā kaiwhakarato moni – greetings investors,

I want to begin our report on the 2019 financial year by welcoming the more than 9,000 shareholders who own a stake in Napier Port following our initial public offering (IPO) and the listing of our shares on the New Zealand Stock Exchange (NZX).

You have not only invested in a major regional infrastructure asset, you have also bought into the passion, talent and experience of a highly committed team. Perhaps more importantly, you have expressed your confidence in the future of Hawke's Bay and the wider region.

As a board, we share your conviction.

For almost 150 years, Napier Port has been connecting Hawke's Bay and its surrounding regions with the people and markets of the world. The IPO, capital raising and sharemarket listing allows us to extend that record and continue to deliver on our core purpose to build a thriving region.

The IPO was the culmination of a two-year process that raised $234 million. Of this, $110 million has been retained by Napier Port and has been used to repay debt and provide cash and debt facilities to fund – among other things – the new multi-purpose wharf, '6 Wharf', at the centre of our development plans.

The new wharf, on which construction will start early next year, will give us the capacity we need to grow with the region and deliver our customers the efficient and networked supply chain infrastructure they have come to expect from Napier Port.

As we began down the road towards the IPO, Napier Port and our then ultimate owner, Hawke's Bay Regional Council (HBRC), identified the importance of bringing our community along with the project as a core priority.

Together we engaged extensively with the region over the 6 Wharf resource consent application. We supported HBRC's consultation on the capital structure of Napier Port, its decision to proceed with the IPO and its determination to give priority in the offer to locals, employees and local iwi.

We commend HBRC for its courage, leadership and commitment to making the capital raising a reality. It has strengthened our direct links and alignment with our community and given us the financial capacity to invest in a way that will also benefit the broader region.

FINANCIAL RESULTS

The results for the 2019 financial year show we have made a good start as a publicly listed company. Revenue for the year to 30 September 2019 increased 8.6% from $91.7 million to $99.6 million in the same period last year and ahead of the $97.4 million we forecast when we launched the IPO.

Napier Port has benefited from continued growth in container volumes, ahead of forecast, due in part to a record export season for apples and increased meat exports. Bulk cargo volumes, including log exports also ahead of forecast, have surpassed previous records.

Net profit after tax fell from $17.6 million in the same period a year ago to $6.8 million, but is ahead of the $5.6 million we forecast. The lower net profit result compared to last year largely reflects the costs incurred during the IPO and our capital restructuring. It also reflects higher expenses as we invest for growth and build our operational resilience.

BALANCE SHEET AND DIVIDEND

The IPO has given us a strong balance sheet. Following the debt repayment, we ended the year with cash and cash equivalents of $31.2 million. This balance is higher than our forecast of $20.1 million due to spend on a number of capital investment projects being deferred to the 2020 financial year.

Supported by these reserves and the new debt facilities we have secured, we believe Napier Port is well-positioned to execute our development plans. In line with our forecast, the board has declared a dividend of 2.5 cents per share. The record date for dividend entitlement is 2 December 2019 and the payment date is scheduled for 20 December 2019.

A CULTURE OF CARE

The past year has not been an easy one for our team. The challenges of pressing ahead with the wharf development, the capital raising and migrating to a listed company environment have placed extra demands on every member of the team.

While we continue to have an unwavering commitment to health and safety, we acknowledge that this year the sobering reality is that we have also experienced a number of incidents and near misses, including two serious harm injuries. The way our team has handled these challenges is a testament to our people and what we call our 'Culture of Care'.

We have been able to strengthen this commitment with the Fair Share plan, which was launched with the IPO and gave our people the opportunity to buy shares in Napier Port. Now 97% of Napier Port people have a direct stake in the company. It is a figure that is no doubt the envy of New Zealand businesses, not least because it ensures almost the entire team is directly attuned to what drives value for shareholders.

Todd, the senior management team, and the whole Napier Port team have put in a mammoth effort and have delivered an excellent result.

On behalf of the board I thank all our people for their contribution during the year and their ongoing commitment to the success of the company.

OUTLOOK

For the new financial year, our focus remains the same: to continue to build a thriving region through connections with our customers, our people and our community.

Notably, next year these efforts will include the development of a sustainability strategy to respond to global challenges like climate change, diversity and equality, and ocean conservation.

Napier Port remains confident we can deliver on the forecasts we have made for the 2020 financial year. As we set out at the time of the IPO, we expect our financial results to be underpinned by container volume growth, log export volumes in line with the results we achieved in the 2019 financial year and continued growth in cruise ship visits.

We look forward to providing a further update to shareholders at our annual meeting in December.

Ngā mihi nui,

ALASDAIR MACLEOD
Chairman

CHIEF EXECUTIVE'S REPORT

Tēnā koutou. Two years ago, I joined Napier Port as CEO, and during this time we've made some fundamental steps towards building a strong platform for the future of our company and our region.

A PLATFORM FOR THE FUTURE

On behalf of our Napier Port team, I'd like to thank our Chairman Alasdair MacLeod, our board and our major shareholder, Hawke's Bay Regional Council, for demonstrating bold leadership and their confidence in Napier Port over the last year. Together with our new shareholders, we have set the foundations for our regional economy to grow for many generations to come.

We worked extensively with our community and invested in research into our marine environment and our regional economy. In November 2018, we received our resource consent for the construction of 6 Wharf – achieved without any appeal, which is unheard of for port infrastructure projects of this scale in New Zealand.

Following this, Council consulted Hawke's Bay people on how they wanted Napier Port to support funding our future – receiving a mandate to float 45% of the company on the NZX. In August, we listed Napier Port and successfully attracted the investment required to build 6 Wharf and meet the needs of our region.

Napier Port has served the Hawke's Bay region for nearly 150 years. Changing the ownership structure of the port is an intergenerational decision, and took political fortitude and sound commercial judgement. However, it is just a small step along the way in continuing to create a long and exciting future story for Napier Port.

At Napier Port, our purpose has substance for our team and gets to the heart of what we all want to achieve: 'Together, we build a thriving region by connecting our customers, people and community to the world'. This drives everything we do at Napier Port and sets the scene for our strategy with a robust and clear direction for the next ten years.

FINANCIAL PERFORMANCE

In our first period as a listed company, we have delivered a solid financial performance with cargo volumes and revenue slightly up on the forecasts set at the time of the IPO.

Another record apple crop drove an 8.6% increase in containerised apple exports, and a 1.9% in overall containerised cargo, with the pipfruit industry per hectare production well above the global average and continuing to intensify. Meanwhile, despite a correction in export log prices in the last quarter of the year, a record 2.6 million tonnes of logs were handled in the 2019 financial year, which represents a doubling of log volume over the last three years.

As forecast, a strong cruise season saw 22.8% growth in the number of visits in the 2018/2019 season, with 70 ship calls. This is a major contributor to the regional economy with Statistics New Zealand estimating that cruise passengers spent $28.4 million in Hawke's Bay in the year to June 2019.

Container services' revenue rose 5.5% from $58.0 million to $61.2 million, while bulk cargo revenue increased 11.4% from $29.0 million to $32.3 million. Cruise revenue increased from $2.6 million last year to $3.7 million.

In addition to trade volume growth, average revenue per TEU increased by 3.4% in the year from $218 per TEU to $226 per TEU, compared to the forecast of $221 per TEU. This includes tariff increases and charges introduced to recover the costs of infrastructure investments made to extend capacity and support growth.

In addition, other container services – including Port Pack and off-port depot services – performed ahead of forecast, albeit down on the prior year due to the loss of a significant depot customer early in the year. Our team provided exceptional container servicing turnarounds, assisting our container depot customers to gain market share during the peak export season.

Meanwhile, growth in bulk cargo revenue was driven by a 10.9% increase in volume. Average revenue per tonne was slightly ahead of the prior year and forecast.

Our result from operations in our statutory income statement, which excludes one-off items such as the costs associated with the IPO, rose by $3.1 million or 7.9% from $38.9 million in the prior year to $42.0 million. Operating expenses as a percentage of revenue increased during the year, from 57.6% to 57.9%. This reflects a boost in staff numbers to build resilience and support growth, however these were higher than forecast due to the greater cargo volume and higher employee and site entrance safety improvement costs.

In addition to the one-off $6.4 million of expensed IPO costs and $7.1 million for the repayment of interest rate swaps, the bottom-line result also included a one-off $1.1 million non-cash expense for the write down in our joint venture interest in the Manawatū Inland Port. Manawatū Inland Port remains a strategic infrastructure asset for Napier Port in the medium term. Overall, the net profit after tax of $6.8 million was $1.3 million higher than the forecast.

STRATEGY FOR GROWTH

In planning for our future and bringing our strategy to life, we are focused on four key areas – customer connection, networked infrastructure, harnessing data and technology, and collaborative partnerships.

Over the past five years, Napier Port has invested nearly $100 million in our infrastructure and equipment to help build operating capacity and ensure we are well-placed to handle the region’s growing cargo base.

In the 2019 financial year, we invested $17.6 million in capital projects, including additional refrigerated container capacity and deposit payments on our third tug, Kaweka, which arrived in November 2019.

We commenced development of our depot services relocation to the off-port container hub in Napier, and further investment in the detailed design and pre-construction phase for the 6 Wharf development. We also invested in replacement paving works, wharf fender replacements and container handling equipment.

Aligned with this investment was the development of a draft 30-year Master Plan to set a clear direction for our asset development plans, ensuring we have the right infrastructure at the right time for our customers. With ongoing input from a range of stakeholders, the plan considers future trade scenarios and changes in the local and global shipping industry.

Our Master Plan will ensure we are building a port that is resilient and responsive to our customers’ needs and that we maximise existing assets that have stood the test of time for future generations.

Everyone from the sheep farmer docking lambs in Central Hawke's Bay to the orchardist growing apples in Pakowhai is our customer. Our people are connecting with our customers out on factory floors, driving forestry tracks and in coolstores, working to understand what their businesses need from us to make them successful.

Our Commercial team is focused on helping importers take advantage of Napier Port's position within the North Island supply chain, helping to diversify our economy and lowering the cost for the primary exports flowing through Napier Port.

Every day, Napier Port uses smart technology to collect data that helps our customers and our port to function. We use that data and technology to provide our customers with more information and to drive more value from our operations.

As an example, in May we launched an Automated Load List Reconciliation system that allows every shipping line calling at Napier Port to validate their own cargo lists. This has reduced planner administration by 60 hours per week in our peak season. Maersk is now rolling the system out to other ports in New Zealand, and potentially the world. This is a great example of how Napier Port is leading technology development across ports in New Zealand for our customers.

Napier Port is an important player in the regional supply chain, but it's just one cog in the machine that keeps our economy revving. We need to foster collaborative partnerships with others to get things done. This includes working with local government entities on how existing industrial land should be managed and where future industrial land could be located, and where investment is needed in the rail and roading networks to support growing cargo volumes.

We are working with log exporters to improve the flow of logs to the port and ease congestion on our wharves. This has included implementing a log allocation model and partnering with industry on the development of a forest-to-ship industry working group focusing on improving the log export supply chain.

We are also working with mana whenua and community groups on how we can strike the right balance for a growing economy and have convened a Mana Whenua Steering Komiti. The Komiti, representing 15 local marae, hapū and mana whenua groups, is developing a unique Marine Cultural Health Programme to support environmental monitoring during our 6 Wharf construction programme. We're also working with local community and industry fishing representatives through our Fishing Liaison Group to monitor, measure and reduce any impact on fish stocks or fishers from port activities.

VALUING OUR PEOPLE

Finally, Napier Port would not have achieved all it has over the last financial year without the talented team who keep our operations running 24/7, develop our port infrastructure, navigate our customer cargo to safe waters and ensure smart commercial decisions are made.

In particular, I would like to acknowledge the huge contribution of General Manager – Container Operations, Warren Young, who after 21 years of service, has announced his retirement. Warren's knowledge of the business and ability to build relationships will be missed, but the successful team he has built and his significant legacy will live on at Napier Port.

Napier Port's strategy sits on a foundation of our Culture of Care – it guides how we look after our people, our customers, our community and our shareholders.

I am proud of the dedication of our team to our region and what we do at Napier Port. Our people have always given more than 100%, but their true commitment to the company was demonstrated when almost the whole team bought shares in Napier Port. They are now more invested than ever in the future of Napier Port and doing their part to get the results we are all striving for.

We are committed to ensuring our people feel their safety and wellbeing are valued by the company, and following a number of serious incidents this year we have refreshed our health and safety strategy to put more focus on critical risk and assurance activities. We've also set a clear health and safety standard for other companies working on our port, with the establishment of our Licence to Operate contract.

LOOKING FORWARD

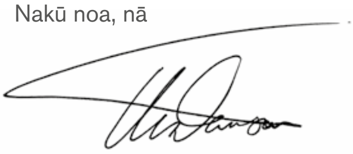
Now we have reflected on what's been accomplished, it is time to look forward to what the next year will bring.

In early 2020, we will commence construction on 6 Wharf. It is a large project that will require careful planning, environmental management and community engagement. We are working to ensure we minimise impacts on the marine environment, local traffic flows and neighbourhood noise. The two-year project will further unlock our potential to serve our customers and grow the region's economy.

Also in the pipeline for 2020 are a number of new strategic projects that will help deliver on our purpose: the integration of 6 Wharf into our operations, the completion of our second off-port site at Thames Street, and further utilisation of our data and technology capability to benefit our customers.

We will be continuing to build on our recently developed Sustainability Framework to ensure we leave a positive legacy for future generations. Over the next 18 months we will develop a sustainability strategy incorporating United Nations Sustainable Development Goals. This will guide our local response to global issues, improve the diversity of our workforce and enhance environmental outcomes. I'm looking forward to the year ahead and seeing what we can do together to ensure our beautiful and productive region prospers.

Nakū noa, nā



TODD DAWSON
Chief Executive

CHIEF FINANCIAL OFFICER'S MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Napier Port has had a transformative year, delivering results in key financial metrics ahead of the forecasts made at the time of our IPO. Revenue has grown by 8.6% and while statutory net profit has decreased by 61.0% to $6.8 million due to IPO and capital restructuring costs, underlying operating performance, as represented by the 7.9% increase in the result from operating activities to $42.0 million, has also grown to record levels.

Our balance sheet has been transformed by a net capital injection of $110 million and by welcoming more than 9,000 new shareholders. At financial year-end, Napier Port was debt-free and holding $31.2 million in cash and cash equivalents in preparation for the commencement of the 6 Wharf construction project.

In conjunction with this annual report, Napier Port has released Supplemental 2019 Trade Volume Data, Supplemental Selected Financial Information with comparisons to forecast financial information, and an annual results presentation that together provide further trade and financial information, comparisons to forecasts published in July 2019 as part of the IPO process, and form part of our 2019 reporting suite of information for investors. All documents are available at the investor centre at napierport.co.nz.

REVENUE

Revenue of $99.6 million increased by 8.6% from the prior year and was driven by both growth in volumes and average revenues per unit across container services, bulk cargo, and cruise services. The revenue result was 2.3% ahead of the $97.4 million forecast for the year.

Container services revenue of $61.2 million was 5.5% higher than the prior year, and 2.8% higher than forecast.

Container services' combined import and export trade volume of 267,000 TEU was 3.2% higher than 2018 and 2.5% higher than the forecast for the year. Combined with fewer discharge, load and restows ('DLRs' or 'other container movements') the total container volume of 271,000 TEU was 1.9% ahead of the prior year and 0.7% ahead of forecast.

Higher export volumes were driven by a record export season for apples, increased meat exports and decreased canned food and other food exports. Missed vessel calls due to weather events and shipping service changes contributed to lower container vessel calls than forecast.

Container services' average revenue per TEU increased by 3.4% compared to the prior year as a result of growth in revenue from container storage and reefer container services, and charges introduced to recover the cost of infrastructure investments.

Bulk cargo revenue of $32.3 million was 11.4% higher than the prior year and 2.2% higher than forecast.

Bulk cargo total volume of 3.4 million tonnes was 10.9% higher than the prior year and 0.7% higher than forecast for the year. Log volume of 2.6 million tonnes grew by 16.9% compared to 2018 and was 3.2% higher than forecast, despite a sharp correction in international export log prices in the last quarter of the year. Other exports were lower than forecast due to fewer exports of bulk timber and lower tallow volumes, among other smaller categories.

Bulk cargo average revenue per tonne increased by 0.5% compared to the prior year and was 1.5% higher than forecast due to a higher number of vessel calls.

The 70 cruise vessel calls for the 2019 financial year were in line with forecasts and represented 22.8% growth in calls compared to 2018. Cruise revenue increased by 46.1% to $3.7 million, which was 4.1% ahead of forecast.

EXPENSES

Operating expenses grew by 9.1% to $57.6 million, with employee benefit expenses increasing 11.8% and other operating expenses increasing 10.7%. The increase in employee benefit expenses was attributable to greater staff numbers, pay rises, increased employee leave costs, and additional costs associated with becoming a listed entity such as $0.3 million of share-based payment expense for the Fair Share employee share ownership plan. Other operating expenses increased compared to 2018 due to consultancy costs relating to port master planning, incremental listed company costs, seismic testing and site entrance safety improvements.

Compared to forecast and allowing for classification differences in reported results compared to forecasts, operating expenses (excluding IPO transaction and related costs) were $1.5 million higher than forecast with employee benefit expenses comprising $1.1 million of this.

The result from operating activities increased by 7.9% to $42.0 million, albeit representing a slight decrease as a percentage of revenue from 42.4% to 42.1%. Adjusting for classification changes in IPO costs in the forecast income statement[1], the result from operations was $0.7 million or 1.8% higher than forecast.

Depreciation, amortisation and impairment expenses increased by $1.2 million to $12.2 million, and were 4.2% higher than forecast, as additional assets commenced being depreciated and a review of residual values for marine floating plant during the year resulted in an increase in depreciation of $0.5 million compared to 2018.

IPO transaction and related costs of $6.4 million were less than the forecast of $7.3 million because of the eventual split of total IPO costs between the income statement and equity. This resulted in a lower portion of the total IPO costs being recognised in the income statement.

The share of loss and impairment of investment in our joint venture was $1.1 million, compared to $0.1 million in the prior year, as the Group's interest in the Manawatū Inland Port joint venture was considered impaired and written down during the year.

Net finance costs increased to $10.4 million compared to $4.1 million in the prior year due to the costs associated with the capital restructuring, particularly $7.1 million of costs for closing out the interest rate swap portfolio, which was $0.5 million higher than forecast.

Income tax expense decreased by $1.7 million compared to the prior year due to lower profits. However, due to non-deductible expenses related to the IPO transaction and the joint venture impairment, the effective tax rate was 43% during the year compared to the statutory and prior year effective tax rate of 28%.

Net profit for the period attributable to the shareholders of the company of $6.8 million was 61% lower than the prior year result of $17.6 million but ahead of the $5.6 million forecast.

CAPITAL EXPENDITURE

Capital expenditure of $17.6 million was $7.4 million less than forecast, the majority of which is due to deferred spend on work in progress projects and replacement capital spend deferred and expected to be completed during the 2020 financial year.

CASHFLOW

Cashflow from operating activities increased 3.4% to $29.3 million from the prior year, and after deduction of $5.6 million in IPO transaction costs. This resulted from the improved operating result, lower net finance costs, lower current income tax payments and an improved working capital position.

As a result of the IPO capital raising and restructuring, including the repayment of outstanding debt and interest rate swaps and capital payments to the previous 100% shareholder HBRIC, and after transaction and debt raising costs, a net $19.5 million of financing cashflow was received during the period.

After the application of operating cashflow to capital expenditures and cash inflows from financing, Napier Port ended the 2019 financial year with no debt and $31.2 million in cash and cash equivalents ahead of the $20.1 million forecast.

[1] *See Note 26.1, Comparison to Prospective Financial Statements, within the Consolidated Financial Statements*

LENDING FACILITIES

As part of the capital restructuring, we successfully refinanced and increased our banking facilities to $180 million during the year. This provided the financial capacity required to continue with our future capital investment programme, and in particular, the 6 Wharf development.

We welcome ICBC (NZ) and ICBC (Asia), joining Westpac, with whom we have a long-standing business relationship, as our banking partners going forward. The new facilities have maturities of four to five years that extend well beyond the planned construction period of 6 Wharf.

BALANCE SHEET

At the end of the financial year the Group had total assets of $371 million, including $31.2 million of cash and cash equivalents and $339.9 million of property, plant and equipment and other assets, which were funded by $335.5 million of equity balances and $35.6 million of current and non-current liabilities.

Compared to the forecast, the property plant and equipment balance is $9.1 million lower principally due to the timing of expenditure on capital projects compared to the forecast assumptions. Trade and other receivables are $1.7 million lower than forecast due to the timing of revenue and collections. As a result of these, the cash and cash equivalents balance is $11.2 million higher than forecast.

DIVIDEND

In accordance with the forecast at the time of the IPO the Board has, subsequent to the balance sheet date, approved a fully imputed dividend of $5 million (2.5 cents per share), payable on 20 December 2019 to those on the share register at close of business on 2 December 2019.

LOOKING FORWARD

The Group is working towards commencing construction for the 6 Wharf development and dredging project. The proposed development is a material investment for the Group and will result in a strategic asset for Napier Port and the local economy.

From a capital and financing point of view, we are well-positioned to fund this project and support the continued growth of our region.

KRISTEN LIE
Chief Financial Officer

SETTING OUR COURSE

Our strategy drives everything we do at Napier Port: how we manage our assets, how we provide innovative solutions to our customers, and how we operate within our community and environment.

In 2018, we carried out a robust strategic process to set ourselves up for the challenges and opportunities Napier Port could face over the next ten years. The last 12 months have been about setting the foundations for success: developing and testing plans for our assets and our business and ensuring we can fund those plans. The next two years will see us starting to deliver on key projects, such as 6 Wharf, and building our capabilities to achieve our vision for the future.

PURPOSE

TOGETHER, WE BUILD A THRIVING REGION BY CONNECTING OUR CUSTOMERS, PEOPLE AND COMMUNITY TO THE WORLD.

OUR FOCUS

CUSTOMER CONNECTION

We are committed to developing close customer relationships that help us to identify opportunities to deliver innovative logistics solutions and integrate us into our customer supply chains, with our business model extending beyond the port gates. We'll use the insights gained from these connections to inform our investment decisions, both on and off the port.

Achievements:

- Handled record 70 cruise vessels
- Increased Commercial team capacity
- Commenced customer insight programme
- Implemented log yard allocation model

NETWORKED INFRASTRUCTURE

We are working to connect our customers' cargo to market with an established and growing infrastructure network, operating as an integrated and intelligent system. We intend to enhance our reach across our catchment area and provide opportunities to develop further customer solutions, including our Thames Street depots and Whakatū land holding.

Achievements:

- Secured funding for 6 Wharf and signed contract with HEB Construction
- Expanded marine fleet with third tug
- Launched draft 30-year Master Plan
- Completed Thames II depot to move container wash and pre-trip services off port
- Launched B-double truck trial to increase efficiencies

OUR FOUNDATION

CULTURE OF CARE

Support our strong and resilient culture which encourages care for our people, the local community and the environment. This 'Culture of Care' is the foundation of our strategy and is pivotal to achieving our goals.

HARNESSING DATA AND TECHNOLOGY

We are focused on capturing data from customer supply chains and operations to deliver productivity gains for customers and Napier Port, and on developing innovative technologies that create efficiencies for our customers and our port operations.

Achievements:

- Integrated Load List Reconciliation
- Automated twist lock location process
- Collaborated with WPI on damages reporting mobile app
- Launched Reefer Care technician app suite to improve data visibility
- Developed mobile app to synchronise vessel plans across stevedores, crane and heavy plant operators, and eliminate paperwork

COLLABORATIVE PARTNERSHIPS

We want to develop collaborative partnerships with people and organisations, particularly those within the Hawke's Bay region, with shared interests and aspirations to support our efforts to build a thriving region. We are committed to supporting our local community and the environment.

Achievements:

- Established Mana Whenua Steering Komiti and Fisheries Liaison Group
- Implemented minimum Safety Protocols
- Developed Licence to Operate with tenants and contractors
- Partnered with local government on regional planning forums

STRATEGIC CHANGE

At Napier Port, we understand our role in the region and within the national transport network. We know that by supporting a thriving regional economy, and by actively growing regional outcomes, our community, our country and our shareholders benefit.

A new Strategy and Innovation team has been established to turbo-charge Napier Port's ability to achieve that strategy.

New General Manager – Strategy and Innovation, Andrea Manley, joined the port this year to drive strategic projects forward – projects that will see us partner with our customers on smart solutions, maximise the ocean of data we collect every day and deliver technology innovations that make our supply chain run efficiently.

Getting a deeper understanding of our customers' needs is a key focus over the next year. Our Commercial team is embarking on a customer insights programme with surveys, interviews and more time spent 'in' our customers' businesses. Those insights will be fertile ground for shared supply chain solutions – solutions that cultivate tangible outcomes for our region.

Working together with our customers to develop supply chain solutions is key to keeping our region connected to the world. We are already innovating within our gates – the next step is to go beyond that to make the supply chain, from start to finish, as efficient as possible.

***Image:** HEB Construction CEO Derrick Adams and Napier Port CEO Todd Dawson at the 6 Wharf site, after signing the construction contract.*

DRIVING STRATEGY AND INNOVATION

Andrea Manley comes to Napier Port with strong experience in supply chain management, from leading a supply chain to providing supply chain services. Her experience in the mobile industry and in driving tech solutions for supply chains means she's ideally placed to lead Napier Port's new Strategy and Innovation team.

Andrea's career started at New Zealand Aluminium Smelters near Bluff and it has taken her all around New Zealand and across the globe. Most recently, she was Supply Chain Manager for Goodman Fielder, which produces a range of brands including Ernest Adams, MeadowFresh, Yoplait, Molenberg, and Vogels. She's also spent time at logistics company Kotahi, Vodafone, Montana Wines, Alcatel-Lucent and GlaxoSmithKline, as well as tech start-ups Onezone and Supplynet.

At Napier Port, she will lead Napier Port's strategic programme – ensuring the delivery of strategic projects that will ready Napier Port for the future. Those projects include Napier Port preparing for the operation of 6 Wharf, exploring off-site opportunities such as the future of land holdings in Whakatū, and the commercialisation of Napier Port's technology innovations.

Andrea is very clear about what she and her team need to do:

"The global port industry is changing rapidly and Napier Port is uniquely placed – it's large enough to have the economies of scale to invest in innovation that can be industry-leading but small enough that it's still nimble and able to adapt quickly. It's our job to create an environment where we can see the opportunities and have the capability to take advantage of them."


NZX
NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA
NZX is proud to acknowledge
NAPIER PORT
For listing on the NZX Main Board
on 20 August 2019
Chairman
Chief Executive Officer

FUNDING OUR FUTURE

Over the last two decades, Napier Port has experienced steady growth, incrementally building our capability alongside the increasingly productive primary sector of the region we serve.

In 2015, it became clear that Napier Port was reaching capacity for the number and size of ships it could accommodate, constraining our customers' ability to get their products to market. It was evident that ensuring the region's importers and exporters retained access to competitive shipping options would require significant infrastructure investment.

At that time, Napier Port was 100% owned by Hawke's Bay Regional Council (HBRC) on behalf of the region's people, who valued local ownership of the port.

After extensive consultation, Council voted to sell 45% of its stake in the company through an Initial Public Offering (IPO) on the NZX, to raise the funds needed to secure the future of the port and the region's economy.

Council wanted to ensure the best local participation possible, so made priority share offers to local residents, eligible iwi entities and Napier Port employees, together with offering shares to the open market through broker firm and institutional offers.

In July 2019, the priority offer opened and was over-subscribed, with nearly 8,000 local residents and ratepayers investing in Napier Port – two-thirds of whom had never invested in shares of any kind before. Several iwi entities invested and 97% of Napier Port's employees took up shares, many with the assistance of a Fair Share employee share loan aimed at encouraging employee participation and engagement. The successful capital raising was a vote of confidence in the future of Napier Port and a demonstration of the important role we play in the region.

On 20 August, Napier Port listed on the NZX. As just the second company to list in an IPO in 2019 and among the largest in recent years, the listing was much anticipated and attracted strong interest.

The share float raised $234 million for the region, including $108 million earmarked for a future fund to enable Council to reinvest on behalf of ratepayers.

Being a listed company has set the platform for Napier Port's future growth, including paving the way for the construction of 6 Wharf.

As a listed company, Napier Port now has many new stakeholders, as well as many existing stakeholders who are more invested than ever in the future of the port.

While the number of people invested in our future has increased, the direction remains the same. We will continue to deliver a strong strategy to support our region's economy to thrive; and in doing so, all our customers, our shareholders, our team and our community will prosper too.

***Image:** Napier Port's General Manager – Commercial ,David Kriel, on the orchard with Bostock New Zealand's John Bostock. As an organic grower, Bostock utilises baleage to control weeds and retain soil moisture on orchards across Hawke's Bay.*

CUSTOMER CONNECTION

Customer Connection is all about strengthening our ties with the growers, manufacturers, retailers and tourism businesses who keep our port and our region humming. That means getting to know their business inside out – to understand what matters to them, what drives their business, and how every element of their supply chain works.

Part of that is developing closer customer relationships that help us identify innovative solutions. Our business model extends beyond the gate and integrates with our customers' supply chains. Armed with deep and rich insights into our customers and their logistics, we are focused on working alongside them to deliver greater efficiencies and value for their business.

SUPPORTING BOSTOCK TO SUCCEED GLOBALLY

Napier Port is playing a key role in Bostock New Zealand's bid to become a global leader in the organic produce trade. Already the largest organic apple producer in New Zealand and a pioneer in sustainable growing practices, Bostock is well-placed to take advantage of growing global demand for organic produce, specifically organic onions. Demand for organic onions is huge around the world, particularly in Europe where limited domestic production increases demand for New Zealand products.

Earlier this year, Bostock's first export of organic onions, also a New Zealand first, arrived in Europe after departing Napier Port. The Bostock team was in Europe at the time and able to take delivery of the same high-quality product that left New Zealand's shores six weeks prior. Napier Port is an integral link in Bostock's customer supply chains and committed to supporting their innovative onion and organic produce export goals.

RECORD APPLE EXPORT SEASON

New Zealand apple orchards are seeing record yields well above the global average, and as the country's main pipfruit producing region, Hawke's Bay is continuing to set record harvest volumes. Napier Port works hard to deliver a fast and efficient export gateway for these high-value, perishable products. This season, Napier Port surpassed total apple export numbers from last year, handling over 25,977 TEU compared to last season's total volume of 23,627 TEU.

Napier Port has close and collaborative relationships with our apple growing partners in the region, and strong strategic plans in place to support the industry's forecast growth. With approximately one million apple trees expected to have been planted in New Zealand in 2019, and at least two-thirds of those plantings in Hawke's Bay, apple harvest volumes are set to grow in the future.

ACCELERATING LOG EXPORTS

Hawke's Bay is a key player in New Zealand's forestry industry and has made strong gains across its log harvest volumes in recent years. This year saw our forestry customers export a record 2.6 million tonnes through Napier Port, a 16.9% increase from the 2.2 million tonnes exported in 2018. This represents a doubling of volume over the last three years, and forestry harvests throughout New Zealand are expected to further increase over the next five years.

Napier Port works alongside our log exporters throughout the year, and new initiatives such as the implementation of a log allocation model and establishment of a forest to ship industry working group have proven positive for our forestry customers and stakeholders.

GROWING DEMAND FOR CRUISE

Napier is regularly voted one of the best ports of call in New Zealand by cruise ship passengers, and demand for the city as a destination is continuing to grow. Napier Port welcomed 70 cruise ships and over 115,000 cruise passengers in the 2018/2019 season, with ship calls forecast to increase to approximately 87 for the 2019/2020 season.

Napier Port makes a real point of working closely with our cruise partners, including cruise lines, Hawke's Bay Tourism, the Napier i-SITE Visitor Centre, tour operators and local businesses, so that together we can offer a high-quality, end-to-end experience for those visiting our region via cruise ship.

DELIVERING VALUE FOR IMPORTERS

Napier Port has been working collaboratively with importers such as Big Save Furniture, local business associations and local government to attract other importers. As a result, our import customers have reduced their costs by taking advantage of the shipping lines' desire to bring full containers into Napier Port (rather than the empty containers required to supply the region's export demand).

MEET OUR COMMERCIAL TEAM

Our Commercial team represents the voice of our customers at Napier Port. They are passionate advocates for nurturing engagement and collaboration as they work with customers to help achieve their goals.

Napier Port is making good on our commitment to customer connection through investment in our customer-facing Commercial team over the last year, with the addition of new Business Development Manager Dominic Sutherland and Commercial Coordinator Amba Foster-Miles. Joining General Manager – Commercial David Kriel and Business Development Manager Andrew Palairet, the team brings a wealth of knowledge and skills to the table and are well-positioned to deliver a rich customer service and foster deeper customer relationships.

MANAWATŪ INLAND PORT

In partnership with Ports of Auckland and Hall's Group, Napier Port has developed a 1.9-hectare container yard and 2,170 square metre warehousing facility at the Manawatū Inland Port. Located in the logistics epicentre of the lower North Island, the model of the Manawatū Inland Port has been designed to reduce time to clear imports and exports at Ports of Auckland and Napier Port.

With a range of services available including Ministry for Primary Industries inspection, cross-dock facilities, dry storage, packing and unpacking facilities, fumigation and container repair, this one-stop shop will create greater efficiencies for our customers and also help to alleviate congestion at busy seaports.

PRIORITISING OPPORTUNITIES THROUGH INSIGHTS

Open channels of communication and opportunities for sharing feedback are crucial to the success of any close relationship. Napier Port aims to develop our partnerships and gain insights from customers by soliciting their input and views through a variety of ways, including online surveys, in-depth interviews, and ongoing customer engagement. These customer insights provide an important benchmark for identifying improvements and prioritising opportunities.

CUSTOMER CONNECTION

NETWORKED INFRASTRUCTURE

NETWORKED INFRASTRUCTURE

Napier Port is working hard to build a seamless supply chain between our customers and international markets. That means examining not only the port infrastructure our customers need, but the freight hubs, the coolstores, the factories, and the road, rail and sea links that connect them together.

PLANNING FOR GROWTH

This year, Napier Port developed a comprehensive Master Plan that provides a blueprint for how we invest and develop infrastructure such as buildings, equipment, roads and rail over the next 30 years.

The preliminary plan was developed in line with international best practice and considers a range of future trade scenarios, changes in the shipping industry, and the needs of our customers and community. We engaged with a wide range of stakeholders, from cargo owners and shipping lines, to transport firms and KiwiRail, alongside our people, local councils and our port neighbours.

The Master Plan sets out a number of options for addressing growth in a sustainable way. The process confirmed the need for a sixth wharf, inland freight hubs and a new tug to support growth; however, whether we pursue other options will depend on actual trade volumes.

The options we do go forward with will be pursued in line with our sustainability strategy and four objectives of the Master Plan:

OPTIMISE
Maximise productivity with the existing land and infrastructure we have.

GROW CAPACITY
Even with greater efficiencies, additional port capacity will be needed to service cargo growth.

PARTNER
Work with key stakeholders to achieve our objectives.

PRESERVE
Ensure we protect and improve our environment as we grow.

EXPANDING THE MARINE FLEET

Napier Port's marine fleet grew significantly this year with the purchase of a third tug. The Azimuth Tractor Drive (ATD) Tug 2412 Twin Fin was purchased from Dutch company Damen Shipyards Group in March and sailed into Napier Port in early November. Just 24 metres in length but with 72 tonnes of bollard pull, the tug will deliver the right combination of power and compactness.

In consultation with local iwi, the tug was named Kaweka after the mountain range that surrounds the harbour west of Napier Port. This boost to our fleet will improve our ability to service vessels (including larger vessels), reduce congestion and delays, improve berth availability and maintain full marine services if one of our other two tugs is out of service.

AGILE INLAND HUBS

The added capacity of our inland hubs in the Thames Street industrial zone is providing flexibility as space on-port is reconfigured to allow for the construction of 6 Wharf. From 2020, container wash and pre-trip services will be relocated to our empty container depots at Thames Street – Thames Street I and Thames Street II. Six container towers have been installed at Thames Street II, and will provide power to 144 refrigerated containers, ready for our export customers to use.

A 12.3-hectare land holding in Whakatu provides a number of options for sustainable development. Over the next few years, Napier Port will explore these options in detail and develop a preferred strategy for the future of this site.

PUTTING WHEELS IN MOTION

The first truck capable of carrying four 20-foot or two 40-foot containers took to the road between Napier Port and our Thames Street depots in August this year. A New Zealand first, the 29-metre-long, five-axle B-train was developed for Napier Port by partners Trackaxle and TERNZ Transport Research.

The vehicle is part of a trial that, if successful, could generate major productivity improvements, reduce the number of trucks on the road and lessen road noise for those living along our transport routes.

RAIL CONNECTIONS

Napier Port recognises the environmental and community benefits of rail-based distribution, particularly for those living near the port and our transport corridors, as we grow. We are working with KiwiRail and our customers to explore mutually beneficial ways to use more rail where it is commercially viable and can deliver strong connections for our customers. Rail-based distribution also has a potential role to play as we develop our off-site depots.

The recent $1 billion boost from Government to KiwiRail, which will see further investment in rolling stock and a range of rail projects, provides opportunities to improve rail's economic viability and reliability for our customers, and to make the supply chain more efficient and sustainable.

NETWORKED INFRASTRUCTURE


TR09
FUSO


KAWEKA
KAWEKA
NAPIER

6 WHARF

BUILDING FOR THE FUTURE

Napier Port is working hard to bring 6 Wharf into operation by the end of 2022. A major construction project, the sixth wharf will cater for the increase in vessels calling at Napier Port, the forecast growth in cargo, and the larger ships expected to call here.

6 Wharf will be a multi-purpose 350-metre wharf along the northern face of our existing container terminal. With funding for the project secured, we have engaged HEB Construction as the lead contractor and begun preparing the site for development.

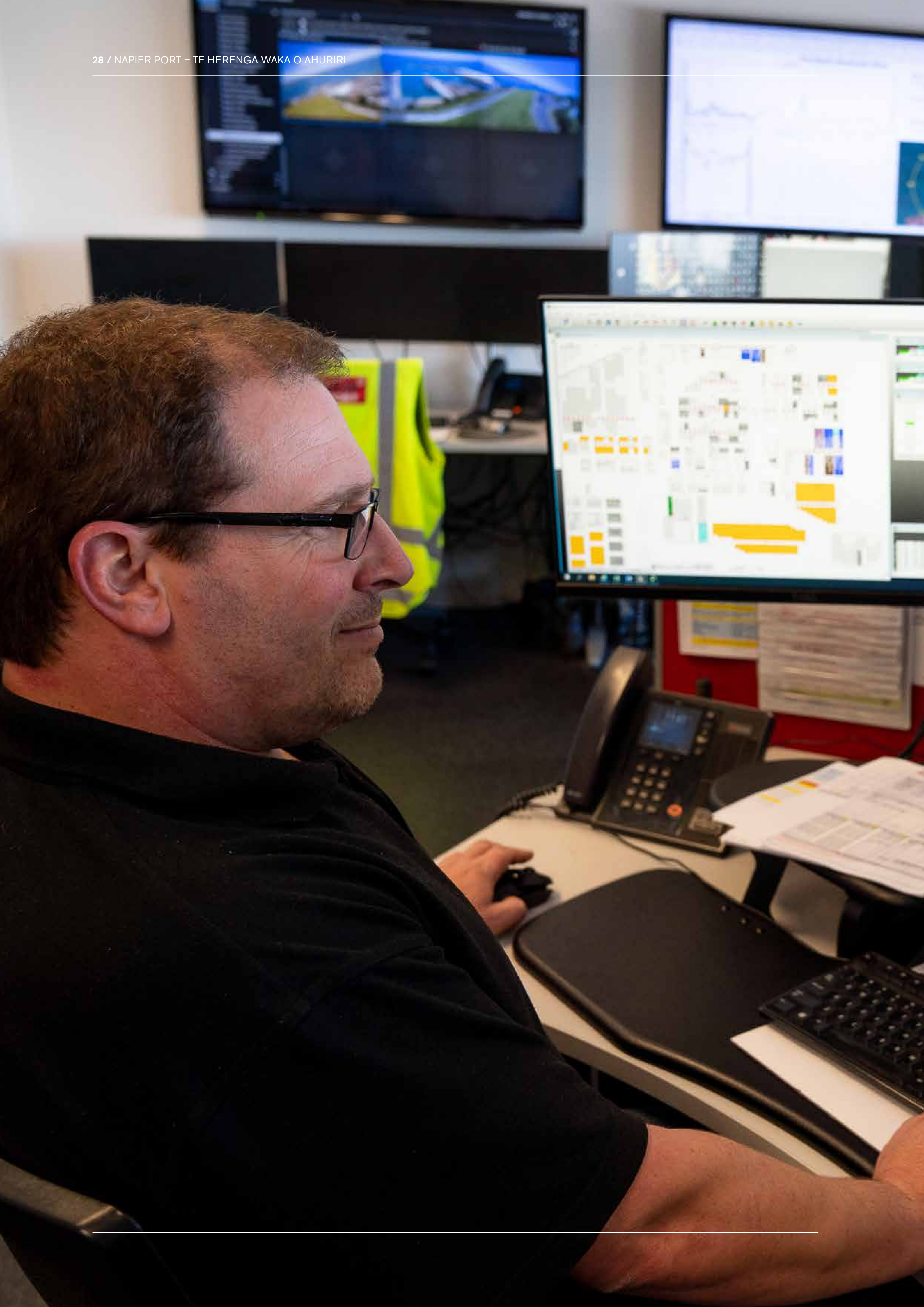
Over the last three years, Napier Port has been dedicated to ensuring the project has minimal environmental impact and is committed to managing against any potential adverse effects throughout construction and dredging. We invested in a large body of scientific research on Hawke's Bay's marine environment to ensure the project was the best it could be for the environment. Throughout the project, we're also working with key stakeholders and following comprehensive and best practice management plans to protect the environment.

BUILDING OUR CAPABILITY

General Manager – Infrastructure Services Michel de Vos and Capability and Cruise Manager Bruce Lochhead are working hard to ensure 6 Wharf is delivered successfully and will build capacity at Napier Port.

Michel de Vos has spent the last five years leading the team who designed the wharf structure and dredging programme. He oversaw the development of the project's environmental protections and community engagement, two key factors in our successful application for resource consent.

Bruce Lochhead is working on integrating the operation of 6 Wharf into Napier Port's current container terminal and marine processes to ensure we have the right elements in place to maximise the benefits for our region.



HARNESSING DATA AND TECHNOLOGY

Aligned with the rapid pace of technological innovation, Napier Port is operating in an increasingly data-driven environment. Information represents a significant opportunity for adding new value to our business, as well as our customers' businesses. With the access to and use of big data growing, a key focus of our strategy is to capture, store, connect and analyse data to create efficiencies for our operations and deliver greater value for our customers.

Napier Port's IT infrastructure has been implemented to enable agility and enhance our capability to identify, test and ultimately invest in innovations. Our culture encourages people to innovate, develop their own skills and reach out across the world to connect with like-minded partners. With this foundation we have developed a number of leading technologies that benefit our customers.

AUTOMATION IN ACTION

Over the past two years, Napier Port has collaborated with shipping lines to improve load list reconciliation through automation. Previously, the reconciliation process saw Napier Port and shipping line planners manually comparing data until both container lists matched.

Since May, all shipping lines calling at Napier Port have been added to the Automated Load List Reconciliation system. This allows shipping lines themselves to validate vessel loading is the same as the bookings made by cargo customers. The new system has reduced our ship planning administration by 60 hours per week in the peak season. Maersk is now rolling this system out to other ports in New Zealand, with further plans to roll out internationally.

OPTIMISING OUR SYSTEMS

Napier Port is continually exploring opportunities to optimise our systems and enable future automation across the business. Earlier this year, Napier Port developed a software solution that automatically assesses the position of a container on the ship and identifies visually on screen whether a container requires a twist lock. Twist locks are used to hold specific containers in place on a container vessel, depending on their position. This new automation process removes all manual administrative input that previously determined the containers that required twist locks, saving 30 minutes for every vessel.

COLLABORATING TO DEVELOP INTELLIGENT DATA SOLUTIONS

Napier Port is focused on getting our customers' products to market in pristine condition and is investing in solutions that do just that. In collaboration with exporter Winstone Pulp International (WPI), we developed an app that allows our people to photograph and report product and packaging issues using their mobile device, with the data immediately integrated into WPI's system. The new mobile app means WPI can trace where any damage occurs in their supply chain and proactively work to reduce it. The application automates the reporting so WPI receives consistent and accurate data, eliminating the former two-hour manual administrative process. This bespoke digital solution provides WPI with greater quality control oversight and ultimately improves their operational efficiencies.

IMPROVING EFFICIENCIES

Napier Port has been focused on improving the operational efficiencies around our refrigerated container (reefer) exports, which are high-value cargo to global shipping lines. We have developed a suite of reefer care mobile apps that improve the visibility of data and automate several manual processes for our Reefer Care technicians, including container preparations (pre-trip), shipside plugging and unplugging; receiving and delivery plugging and unplugging, reefer monitoring, and reefer charting. These innovations have increased productivity across our reefer services and reduced the workload of our people.

AUTOMATION ALLOWS GREATER FLEXIBILITY FOR CUSTOMERS

Napier Port will soon launch an in-cab application for crane operators, shipside heavy forklift operators and stevedores that automates the processes for container vessel exchanges. This improvement will extend the container acceptance window for our customers and allow planning to be more dynamic and responsive to their needs. In addition to providing greater flexibility for our customers, the new process will eliminate paper-based processes altogether and reduce Napier Port's paper consumption by 2.5 tonnes a year.

RESOURCING FOR A DIGITAL FUTURE

The Information Technology (IT) team is growing in alignment with our strategic focus of harnessing data and technology. Recent changes have seen the introduction of a new Software and Data Manager role, and the transition of two outsourced roles – IT Infrastructure Manager and Senior Developer – to Napier Port people. With such an emphasis placed on innovation, we are proactively integrating data and data-driven solutions across the business.

REAL-TIME DATA

We're understanding more about our marine environment than ever before, thanks to new technologies deployed in the harbour. Through our solar-powered monitoring buoys and gauges, we're collecting real-time data on water clarity, temperature, currents, tides, and wave height. This information gives us a strong picture of the health of the harbour and the mauri (life force) of Pania Reef, and allows us to respond quickly to changing conditions in the harbour.

HARNESSING DATA AND TECHNOLOGY

PETER FRIZZELL

This year marks 50 years since Napier Port's hydrographer, Peter Frizzell, began working in the marine environment surrounding the port. Pete's role is critical to ensuring Napier Port can operate and grow – mapping the shifting sea floor and vital shipping channel, planning dredging campaigns, collecting data about weather, tides and the clarity of Hawke Bay's water. Pete generously shares his vast knowledge with the Infrastructure team to help protect the environment and plan infrastructure projects, as well as heading out weekly in our survey boat to maintain monitoring bouys.

COLLABORATIVE PARTNERSHIPS

Collaboration is at the heart of everything we do – every day we work with our customers, business partners, regional agencies and our community to build a thriving region. By working together, we can add value to the community and the environment we operate in sustainably.

PARTNERING ON SOLUTIONS

Napier Port is focused on building partnerships with like-minded organisations to provide innovative solutions to our customers, including supply chain infrastructure.

In line with our focus on collaborative partnerships, we are searching out innovative ways to fund, deliver and manage future infrastructure projects. We have strategically purchased 12.3 hectares of industrial land at Whakatū for a future off-site facility and we are currently investigating options, including collaborative partnerships with suppliers, for its development over the next decade.

IN PARTNERSHIP WITH STAKEHOLDERS

As we grow, we are committed to taking others with us. As part of the 6 Wharf project, we have established the Mana Whenua Steering Komiti (pictured), which includes 15 representatives from different marae, hapū and mana whenua entities. The Komiti will play a vital role in protecting, monitoring and assessing the cultural health of the marine environment, particularly Pania Reef, during the 6 Wharf project. Together, we are developing the Marine Cultural Health Programme, which, along with our own environmental monitoring, will ensure our planned dredging operations are not adversely affecting Te Matau a Māui.

We also work closely with the local fishing sector – both commercial and recreational – who have a strong interest in maintaining the health of the harbour and the flora and fauna that live within it. To that end, we have established the Fisheries Liaison Group (pictured, top left), a committee of 12 commercial and recreational fishers, divers and Napier Port representatives led by Environment Court Commissioner Eileen von Dadelszen. The group meets quarterly and has provided input into management and monitoring plans to minimise potential risks to water quality, fisheries and fishing stock as a result of disposal and dredging.

BUILDING AN EFFICIENT SUPPLY CHAIN

Arterial routes, rural roads, rail lines, freight hubs, coolstores and the port form a complex network of supply chain infrastructure across our region and beyond.

To ensure the health of that network, the infrastructure owners, transport operators, cargo owners and the community must work together. Where there are pinch points, a clear and cooperative vision for the future is vital to ensure effective solutions secure investment and are delivered in time to prevent congestion.

Napier Port is actively working with the New Zealand Transport Agency, KiwiRail and Hawke's Bay councils to ensure the right infrastructure is in place to support increasing cargo volumes. Napier Port is involved in a number of processes to achieve this, such as:

- Participating in the Regional Land Transport Committee, facilitated by Hawke's Bay Regional Council, which determines where across the transport network investment is needed
- Collaborating with Napier City Council on the Napier Transport Study, which, among other things, will consider how to protect, maintain and enhance the link from the Hawke's Bay Expressway to Napier Port
- Contributing to the industry-led Forest to Ship supply chain workshops to support growth in the forestry industry and efficient linkages to the port
- Collaborating with councils on how existing industrial land should be managed and where future industrial land could be located, through the Joint Napier City Council and Hastings District Council Regional Industrial Land Review, the Ahuriri Estuary and Coastal Edge Masterplan and the Napier District Plan Review.

STRENGTHENING SAFETY PROTOCOLS

Working with key stakeholders, we introduced a new set of safety protocols with the aim of ensuring every person who comes to our site goes home again safely. Our new Individual Safety Protocols set out the safety risks, expectations and requirements for our people, port users and visitors, including our critical risks, personal protective equipment requirements, drug and alcohol policy, safety reporting responsibilities and emergency evacuation information. Our new Company Safety Protocols apply to all businesses operating at Napier Port, including customers, contractors, tenants, marshalling companies and stevedores. These include work permits, traffic management plans, hazardous substance management, communicating across port, reporting responsibilities, and more.

We also worked with contractors to introduce a pre-qualification process, which requires all potential contractors to have completed the Site Safe qualification. This provides an added assurance that all contractors have essential health and safety requirements in place.

NEW LICENCE TO OPERATE

Napier Port is committed to creating a health and safety culture to be proud of, but we can't do this alone. Businesses operating at the port need to share our health and safety standards, and jointly commit to looking after our people. This year, after thorough consultation, we finalised a new Licence to Operate that sets out core safety standards for businesses that operate on our site but may not have a direct contractual relationship with Napier Port, such as log marshalling and stevedoring companies.

The Licence to Operate outlines a number of operator obligations, including providing copies of risk registers, hazardous substances registers and emergency response plans. Marshalling company ISO was the first signatory and the initiative will be progressively rolled out over the next year to other businesses operating at Napier Port.

COLLABORATIVE PARTNERSHIPS


MAERSK
MAERSK
MAERSK
NAPIER PORT
SAFETY


Speak UP
STAND
TOGETHER
STOP BULLYING

CULTURE OF CARE

CULTURE OF CARE

At the heart of our business is a resilient and agile culture of care for our people, our customers and our community.

DEVELOPING OUR PEOPLE

Our people are our greatest strength and we are committed to accelerating our talent development.

This year saw a number of our people progress through our Marine team structure, proving the value of our career pathways. Two of our Launch Masters completed their Tug Master training, while two of our mooring linesmen completed their Skipper Restricted Limits tickets, enabling them to become Launch Masters on our pilot launch. We welcomed two new Marine Officers, who we will develop to become marine pilots. We also introduced the new position of Executive Pilot to better connect our pilots with the wider business, oversee development of the Pilot team, and to lead best practice in safety, process and navigation.

Two of our former heavy plant operators progressed through to become mobile harbour crane operators, completing their training both on the job and in our state-of-the-art crane simulator. A new trainee crane operator was also appointed and is now in training.

BUILDING LEADERSHIP AND TALENT

Port Pack Manager Dylan Turnbull (pictured, top left) graduated from the Chartered Institute of Transport and Logistics' Leaders for the Future programme in October, the fifth member of our team to complete this training. A four-month course, it is designed to lift and develop leadership capability for emerging logistics leaders.

We strengthened capacity in our Marine team, welcoming two new Tug Masters, two Launch Masters, and two Tug Engineers. We also introduced new positions. Our Pou Tikanga role was established to strengthen our environmental monitoring capacity, build iwi and hapū relationships around the 6 Wharf project, and lead the development of our cultural capability. A new Innovation and Supply Chain Manager role brings additional capability to enabling strategic aspirations.

CELEBRATING TE WIKI O TE REO MĀORI

Our people embraced Te Wiki o Te Reo Māori this year, learning new kupu (words) and integrating te reo into their work. Every team member received a pack of language cards covering basic pronunciation, essential phrases, and frequently used port-related words. Our people also produced a series of short te reo videos, which were shown on screens throughout the port.

The week was organised by a dedicated kāhui (working group) of people from across our business passionate about te reo. Following the success of Te Wiki o Te Reo Māori, the kāhui is now working on a more comprehensive long-term strategy for building te reo and Te Ao Māori capability at Napier Port.

In recognition of our commitment to building iwi and hapū relationships, and to growing our cultural understanding, we have also introduced a te reo name for Napier Port: Te Herenga Waka o Ahuriri. 'Te Herenga Waka' means a place of arrival, or a place to moor your waka, while Ahuriri is the Māori name for Napier.

TE HERENGA WAKA O AHURIRI

SERIOUS INCIDENTS

Napier Port experienced a number of major safety incidents this year. Two incidents in our Port Pack operation resulted in a crush injury to a finger, and a serious foot injury. A marine collision involving a Napier Port tug did not result in any injuries but did cause damage to the tug and had the potential to be more serious.

We are supporting all those involved in these incidents, along with their families and workmates. We are doing everything we can to learn from these incidents and keep our people safe. We have already introduced new procedures and practices for our marine operations, developed a new training programme, and reduced risk by reconfiguring elements of the tug wheelhouse and lighting. In Port Pack, we are in the process of installing physical barriers to protect our people from machines and are assessing how engineered controls could be installed in other areas.

These incidents have given us cause to reflect closely on our health and safety plan. This review has reaffirmed our plan to achieve best practice health and safety management frameworks and to continue the strong work we have achieved in developing our safety culture. However, we have committed to accelerating that plan by providing additional resourcing in the health and safety space to enable us to achieve our goals within a shorter timeframe.

UNDERSTANDING CRITICAL RISK

This year brought a sustained focus on critical risk for Napier Port. A thorough analysis of each of our top eight critical risks was completed, using a robust methodology for risk assessment and mitigation. Detailed risk management plans will be completed in the coming year.

INTRODUCING PORT PASS

We have been working hard to streamline induction and access at Napier Port. Building on the online health and safety induction introduced last year, we have rolled out a new ID and access system called Port Pass. Supported by a modern, high-tech infrastructure system, Port Pass is helping Napier Port manage safe, secure and efficient access to the port.

The new Port Pass ID represents an innovative step forward for Napier Port. It is an industry-leading identity card that meets maritime legislation requirements and is also a valid form of ID on its own. The system is future-proofed and can be used at other ports around the country. It also has its own stand-alone branding, creating the potential to become a multi-regional port identity card.

CULTURE OF CARE

A SAFER ENTRANCE

This year saw us collaborate to improve the safety of Napier Port's Western Gate – a high-traffic area where container trucks interact with smaller vehicles, cyclists, pedestrians and trains. In partnership with NZTA, Napier City Council and KiwiRail, who hold interests in the land, road and rail around the Western Gate, the road and port entrance were reconfigured and traffic lights and rail barrier arms installed. Since their installation, there have been no safety incidents around the gate.

CAMPAIGNING FOR SAFETY

This year, we ran an educational campaign for log truck drivers, setting out standards for safer stacking of logs on trucks and trailers. The campaign saw the introduction of a Napier Port Safety Alert, which has been issued industry-wide to transport operators, skid site operators and log exporter groups.

In collaboration with WorkSafe New Zealand and the New Zealand Police Commercial Vehicle Safety Team, log truck inspection and safety days were run onsite to reinforce log load safety regulations and ensure trucks were compliant. We have seen a marked improvement in the safe loading of log trucks since the introduction of the campaign in July.

CARING FOR HEALTH AND WELLBEING

Keeping our team in top shape is a priority for Napier Port. This year saw the continuation of our comprehensive health and wellbeing programme, which includes providing an onsite health clinic, healthy food options, flu vaccinations, cardiovascular checks, MoleMaps, and prostate cancer tests.

Napier Port runs a health monitoring programme for those in roles that put them at risk of certain health conditions, with annual checks by our onsite nurse ensuring we catch any warning signs early. Occupational health risks such as noise, dust and vibration have been independently assessed and the results have informed a management plan, which is being implemented progressively.

This year saw a wellness programme designed specifically for those in operational roles affected by the peak produce export season. This focused on practical topics including sun safety, nutrition, hydration, and fatigue, and included engaging activations such smoothie bikes, which saw our people take up the challenge of making a nutritional meal via pedal power. We also offered our 'Warrant of Fitness' programme for a second year, offering basic health checks to all staff.

We marked Pink Shirt Day for the third time this year, taking a stand against bullying. Our people embraced the message, dressing in pink and delivering random acts of kindness for their colleagues.

MANAGING FATIGUE

Fatigue is a serious issue for any company engaged with shift work, and Napier Port is no different. We take a proactive approach to managing fatigue amongst our people, and this year developed a Fatigue Risk Management System. The development process was driven by our operational staff, who experience fatigue and its consequences first hand.

CULTURE OF CARE

OUR PEOPLE

271
TOTAL PERMANENT STAFF*

18%
OF STAFF ARE FEMALE

82%
OF STAFF ARE MALE

33%
OF STAFF ARE UNDER 40 YEARS

31
PEOPLE HAVE WORKED AT THE PORT FOR 20^{+} YEARS

41%
NEW STAFF IN THE 2019 FINANCIAL YEAR

218
PLACES ON HEALTH AND SAFETY COURSES

1,005
SAFETY OBSERVATIONS MADE

3,794
HEALTH & SAFETY INDUCTIONS COMPLETED

97%
OF PORT STAFF NOW SHAREHOLDERS

** at 30 September 2019*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Napier Port is committed to collaborating with others to ensure our people, planet and place thrive.

At Napier Port, we want to leave a positive legacy for future generations. This year, we completed a Sustainability Framework, focused on what we can achieve locally to respond to global challenges like climate change, gender equality, and ocean conservation. The framework will guide the development of a sustainability strategy for Napier Port over the next 18 months.

The framework focuses on four interconnected themes:

The themes of our Sustainability Framework are aligned to the United Nations Sustainable Development Goals, a set of 17 goals that aim to address urgent environmental, political and economic challenges facing our world. Napier Port has identified 14 goals that we could make a meaningful contribution to at a local level, and we will work with our team and our stakeholders to confirm these goals and the actions we will take to facilitate sustainable growth for our customers and our region in the years ahead.

The Sustainability Framework gives a strong foundation on which to build a more detailed strategy, as well as providing a robust structure for our existing ESG programme. Initiatives that have delivered real gains in the past year include:

PROTECTING PENGUINS

This year, we opened New Zealand's first on-port sanctuary for penguins. Napier Port has a colony of kororā (little blue penguins) living on and around the port, with a number of nests in the area earmarked for 6 Wharf. We are committed to protecting the kororā throughout the construction period and beyond, and have established a 750-square metre sanctuary with the goal of growing the kororā population. Trained handlers will move penguins still nesting in the 6 Wharf area to the sanctuary before construction begins with the goal of ensuring we protect and enhance Hawke's Bay's kororā population during and beyond the project.

The sanctuary is a predator-controlled environment designed in collaboration with Dr John Cockrem, a renowned penguin expert based at Massey University. Designed to mimic an ideal natural breeding ground, it includes native plantings, buried nesting burrows, and a ramp directly into the harbour. Nesting boxes, which have been shown to have greater breeding success rates than natural burrows, were built and painted by Napier Central School pupils, mana whenua hapū, and Napier Port families.

With nesting season now underway, the penguins are settling into their new burrows and will be closely monitored by our Environment team. The colony will become part of a long-term Massey University research study, contributing to the international body of knowledge on kororā and helping to better protect the nationally at-risk species in future.

ENERGY-EFFICIENT SOLUTIONS

After a successful trial at Napier Port's Thames Street II depot, the first LED light tower was erected on-port this year. This is the first step in a staged roll-out that will see all our light towers converted to LED in the future. The LED technology is specifically designed for demanding operating environments like ports, and comes with a fully-automated service which brings both cost savings and safety improvements. Consuming just 580 watts, LED lighting requires less than half the energy of traditional HID lighting while producing 60% more light, and requires little maintenance.

SUPPORTING OUR COMMUNITY

Napier Port is proud to give back to the community around us. This year, we continued our support of the Napier Port Ocean Swim, the Napier Port Harbour to Hills triathlon, and the Napier Port Family Fishing Classic. We also supplied a safety waka for the Atea-a-Rangi Trust, and equipment for the Ocean Beach Kiwi Surf Life Saving Club and The Old Customhouse museum.

We also supported our local industry through sponsorship of the Napier Port Hawke's Bay Primary Sector Awards, the Export Awards, the Young Farmer of the Year Contest, and the New Zealand Maritime Pilots Association Conference, all of which were held in Hawke's Bay.

RESTORING OUR WETLANDS

Napier Port is proud to have been part of developing a new wetland at Waitangi Regional Park, providing a sanctuary for native fish and birdlife. Our people have been part of the project from the early stages, with Infrastructure and Environment team members lending their skills and expertise to make the project a success. The project was a partnership between Hawke's Bay Regional Council, Te Wai Mauri Trust and Ngāti Kahungunu representatives, with the design and build taking two years. The completed wetland is around 15 hectares, and has transformed an empty space into a haven of biodiversity.

CARBON EMISSIONS

This year, our total carbon emissions were 8,428 tonnes or 0.03107 T/CO_2e per TEU, down from 8,716 tonnes in 2018. This decrease is primarily due to a change in the emissions factors set down by the New Zealand Government, which dictate how carbon emissions are calculated. Using the emissions factors required prior to the change shows an increase to 8,937 tonnes.

REDUCING WASTE

As part of our journey towards sustainability, we are committed to finding ways to reduce, reuse, recycle and repurpose our waste. Through a long-running partnership with local firm BioRich, 4,621 tonnes of waste bark from our log yard was repurposed into mulch, to be used on orchards, gardens, and planting projects around our region. We also work with local construction firms to repurpose their waste concrete into safety barriers, preventing it from going to landfill.

This year, we sent 296 tonnes of waste to landfill, and recycled 20 tonnes. This is a 72% reduction in our overall waste since last year, thanks primarily to a concentrated effort to reduce the volume of stony bark that goes to landfill. But we're not stopping there – as our sustainability work progresses, we will be exploring more innovative ideas for reducing waste and lessening our impact on the environment.

BOARD OF DIRECTORS

ALASDAIR MACLEOD

Independent Director and Chair
HND (Civil), MBA, MInstD

Alasdair joined the Napier Port board in 2014 and was appointed Chair in December 2014. Originally a civil engineer, Alasdair has a broad range of experience across the energy, infrastructure, technology and primary sectors. As a Partner at Deloitte for 12 years, Alasdair led the teams that developed New Zealand's Aquaculture Strategy, Horticulture Strategy and Red Meat Sector Strategy. Alasdair is chair of technology businesses Optimal Workshop Ltd and Silverstripe Limited, and the independent member of the Board Appointments Committee for IHC New Zealand.

Alasdair is Chair of the Hawke's Bay chapter of ExportNZ (a division of BusinessNZ) and was involved in authoring the Hawke's Bay Regional Economic Strategy – Matariki.

STEPHEN MOIR

Independent Director

Stephen was appointed as a director of Napier Port on 19 December 2016 and chairs the Audit and Risk Committee. Stephen brings an extensive background in institutional banking and financial markets, having held senior roles at Westpac Institutional Bank, Credit Suisse (Singapore) and Citibank (Singapore, Thailand and Australia).

Stephen is a director of The Guardians of the New Zealand Superannuation Fund and a director of the Todd Family Office. He was previously a non-executive director on the BNZ board, and chaired both BNZ Life Insurance Ltd and BNZ Insurance Services Ltd, as well as the advisory board to the Victoria University Chair of Business in Asia. Stephen was previously a member of the NZ Markets Disciplinary Tribunal.

JOHN HARVEY

Independent Director
BCom, FCA, CFInstD

John joined the Napier Port board on 7 February 2019. John has a background in financial services, including NZX listings, acquisitions, mergers and financial reporting, with over 35 years' professional experience as a Chartered Accountant. He was a partner at PricewaterhouseCoopers for 23 years, including eight years as Auckland Managing Partner.

John is a Chartered Fellow of the Institute of Directors in New Zealand and is currently a director of Heartland Bank, Investore Property, Stride Property Group and Kathmandu Holdings. He previously served on the board of Port Otago for nine years, and has been a director of Ballance Agri-Nutrients and APN News and Media.

WENDIE HARVEY

Independent Director
LLB, MInstD

Wendie joined the Napier Port board on 16 December 2013, and has over 25 years' experience as a lawyer, executive manager and business consultant.

Wendie is currently a director of Hawke's Bay Airport, Hawke's Bay Construction Limited (Chair), Centralines Limited, ETCO (Electrical Training Company Limited) and Aurora Energy Limited. Wendie also serves on the Eastern Institute of Technology Council, the Board of Fire and Emergency New Zealand, and as a Commissioner on the New Zealand Gambling Commission. She has previously served on the board of Quality Roading Services (Wairoa) Limited, Hohepa Homes National Trust Board and the Hawke's Bay Rescue Helicopter Trust.

Resigned 3 October 2019.

VINCENT TREMAINE

Independent Director
BBus, FCPA, FAICD, GAIST

Vincent joined the Napier Port board on 7 February 2019. Vincent has broad experience in the port sector, having served for 16 years as CEO of Flinders Ports Holdings, which owns seven South Australian ports, the Adelaide Container Terminal and Flinders Logistics.

Vincent is currently Chair of Riverland Holdings and a director of South Australia's Statewide Super. He has served as Chair of Ports Australia and the South Australian Chamber of Commerce and Industry, and as a director of Australia's National Heavy Vehicle Regulator. Vincent also worked for Toll Ports and Resources, managing the ports of Geelong and Hastings in Victoria.

HON RICK BARKER

Director
MPP

Rick joined the Napier Port board on 27 June 2019. Rick serves as the Deputy Chair of the Hawke's Bay Regional Council, having been elected as a councillor for Hastings in October 2013. He was previously a Member of Parliament for 18 years, serving six years as a Cabinet Minister and also acting as Assistant Speaker of the House during his tenure.

Rick is currently working on behalf of the Minister for Treaty of Waitangi Negotiations to settle historic grievances against the Crown. Rick completed a Master's Degree in Public Policy in 2012.

DIANA PUKETAPU

Independent Director
FCA, CMInstD

Diana joined the Napier Port board on 13 December 2017, and has a background in commercial, iwi and sports governance. Diana is a director of Ngāti Porou Holding Company, Tāmaki Redevelopment Company, Manawanui Support Limited, the New Zealand Olympic Committee and NZ Cricket. She has previously served as a director of Auckland Council Investments Limited and the World Masters Games 2017, and was formerly the Chief Financial Officer of Ngāti Whātua Ōrākei Corporate.

Diana is a Fellow of Chartered Accountants Australia New Zealand and a Chartered Member of the Institute of Directors in New Zealand.

BLAIR O'KEEFFE

Director
BBS (Hons), MInstD

Blair was appointed as a director of Napier Port on 27 June 2019. Blair is a professional company director, with governance experience in local and central government, and NZX-listed companies.

He is currently a director of NZX-listed Z Energy. He is also the former Chair of Crown entity Maritime New Zealand and was Chief Executive of CentrePort for seven years. He is currently Chief Executive of the Hawke's Bay Regional Investment Company (HBRIC), Chair of the Hawke's Bay Rescue Helicopter Trust and a director of Central Air Ambulance Limited.








From top left: *Alasdair MacLeod, Stephen Moir, John Harvey, Wendie Harvey, Vincent Tremaine, Rick Barker, Diana Puketapu, Blair O'Keeffe*









SENIOR MANAGEMENT

TODD DAWSON

Chief Executive
BSC, PGDipBus, MInstD, PMP

Todd joined Napier Port as Chief Executive Officer in January 2018, bringing broad commercial experience across the transport and logistics sectors. Prior to Napier Port, Todd led strategic partnerships and new ventures at Kotahi Logistics, working on the introduction of big ships to New Zealand and intermodal freight hub joint ventures. He has over 20 years' experience behind him, having worked on international projects including the transformation of UK supermarket Sainsbury's supply chain. He has previously held senior roles at IBM, Toll New Zealand and Mainfreight.

Todd holds a Bachelor of Science and a Postgraduate Diploma of Business in Operations Management from the University of Auckland. He is a member of the Institute of Directors in New Zealand and is Chair of Napier Port's intermodal joint venture Manawatū Inland Port and director of Total Advantage Group in Auckland.

From top left: *Todd Dawson, Kristen Lie, David Kriel, Viv Bull, Adam Harvey, Warren Young, Andrea Manley, Michel de Vos, Bruce Lochhead*

KRISTEN LIE

Chief Financial Officer
BBS, CA, CFA, CMInstD

Kristen joined Napier Port as Chief Financial Officer in September 2015. Kristen has more than 20 years' financial experience and strong commercial and strategic planning skills. Kristen returned to Hawke's Bay after some 18 years working across London, Moscow and Oslo. His previous roles have been with the London-based office of listed shopping centre group Westfield, London-based property investment company Grosvenor, as well as Ernst & Young and PricewaterhouseCoopers.

Kristen holds a Bachelor of Business Studies from Massey University and is a Chartered Accountant, a Chartered Financial Analyst, and a Chartered Member of the Institute of Directors in New Zealand.

DAVID KRIEL

General Manager – Commercial
MSc, FCILT

David joined Napier Port as General Manager – Commercial in 2018. David has a background in transport and logistics and worked with Lodestar and Oji Fibre Solutions from 2005 to 2018.

David is a Fellow of the Chartered Institute of Transport and Logistics. He is a member of the East Asian Society for Transport Studies and the Humanitarian Logistics Association. David sits on the board of Business Hawke's Bay as the Napier Port representative.

VIV BULL

General Manager – Culture and Community
MSc (Hons)

Viv joined Napier Port in 2011 and leads our human resources, health and safety, and communications functions. Her career has included senior management roles with the Department of Corrections, KPMG and the State Services Commission.

Viv is Deputy Chair of the Hawke's Bay Chamber of Commerce and is an independent member of the audit and risk committee of the Heretaunga Tamatea Settlement Trust. She holds a Master of Science in Psychology from the University of Canterbury.

ADAM HARVEY

General Manager – Marine and Cargo Operations
BA, BCA

Adam joined Napier Port in 2010 and is responsible for including the log operation, logistics and planning, security and shipping operations. He has a background in human resources and prior to his current position, was Napier Port's Container Terminal Manager.

Adam holds a Bachelor of Commerce in Management and Economics and a Bachelor of Arts in Geography and Psychology, both from the University of Otago. He sits on the executive of the Port Industry Association.

WARREN YOUNG

General Manager – Container Operations
CA

Warren joined Napier Port in 1998, and is responsible for Napier Port's container terminal, the Port Pack operation, our empty depot network and Plant Services. Warren has previously served as Napier Port's Finance Manager and as manager of Port Pack. Prior to joining Napier Port, Warren was Chief Financial Officer at Montana Wines.

Warren is a Chartered Accountant, and a member of Chartered Accountants Australia and New Zealand.

ANDREA MANLEY

General Manager – Strategy and Innovation
BSc/BCom, MZIMR I & II, DipBA

Andrea joined Napier Port in 2019. She is responsible for leading strategic planning and performance, identifying growth opportunities, implementing new strategic initiatives and developing digital solutions. Andrea has previously worked with Kotahi Logistics, Goodman Fielder, Alcatel-Lucent, Brightstar, Vodafone and IBM.

Andrea holds a Bachelor of Science in Statistics, Management Science and Operations Research from the University of Auckland and a Diploma in Business Administration from Henley Management College. She is a Non-Executive Director of Pacificomm, a member of the University of Auckland Strategic Supply Chain Programme Advisory Group and a founding member of the Auckland Women in Supply Chain Network.

MICHEL DE VOS

General Manager – Infrastructure Services
BEng (Nav Arc), GDip (Maritime and Logistics Management)

Michel joined Napier Port in April 2014. Michel is responsible for the maintenance, planning and construction of all port infrastructure, as well as overseeing our environmental management programme. Michel has a background in marine engineering, having held roles with Queensland's Gladstone Ports Corporation and Fremantle Ports in Perth, as well as working with multi-national dredging and maritime construction firms on projects throughout Asia.

BRUCE LOCHHEAD

Capability and Cruise Manager
BA (Econ)

Bruce is responsible for the development of our cruise operation and will oversee the future integration of major infrastructure investments. Bruce has more than 30 years' experience in the shipping sector and prior to joining Napier Port in 2005, worked across the globe for P&O Nedlloyd.

Bruce holds a Bachelor of Arts in Economics from Massey University and sits on the board of the New Zealand Cruise Association.

FINANCIAL STATEMENTS AND OTHER DISCLOSURES

NAPIER PORT HOLDINGS LIMITED

CORPORATE GOVERNANCE STATEMENT

The Board of Napier Port Holdings Limited (the Company) and its subsidiaries (collectively the Group) are responsible for the corporate governance of the Group. Corporate governance describes how a company looks after the interests of its shareholders and other stakeholders.

The Board is committed to maintaining best practice governance policies and behaviours. This Corporate Governance Statement sets out the corporate governance policies, practices, and processes of the Group as at 18 November 2019 and has been approved by the Board.

The Group's policies, practices and processes are reviewed against the best practice principles included in the NZX Corporate Governance Code 2019 (NZX Code). The Board's view is that the Group's corporate governance policies, practices and processes generally follow the recommendations of the NZX Code. This Corporate Governance Statement includes disclosure of the extent to which the Group has followed each of the recommendations in the NZX Code.

Further information about the Group's corporate governance framework is available on the Group's Investor Centre (www.napierport.co.nz).

PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation".

CODE OF ETHICS

Recommendation 1.1: *The Board should document minimum standards of ethical behaviour to which the issuer's Directors and employees are expected to adhere (a code of ethics).*

The Board and management are committed to ensuring the Group adheres to best practice governance principles and maintains the highest ethical standards. The Group's code of ethics sets out the manner in which directors and employees should conduct themselves. The code of ethics incorporates the requirements set out in recommendation 1.1 of the Code and forms part of the induction process for all new employees.

The Board recognises good governance is not merely a matter of achieving legislative compliance but ensuring that exemplary standards and behaviour are maintained. This involves the establishment and maintenance of a culture at a Board and senior management level and throughout the Group to ensure that directors and employees deal fairly with others, with transpare ncy, and protect the interests of shareholders and look after the rights of stakeholders.

SHARE TRADING POLICY

Recommendation 1.2: *An issuer should have a financial product dealing policy which applies to employees and directors.*

The Group has adopted a Share Trading Policy which sets out the responsibilities of all directors, officers, employees, personal services contractors, and secondees of Napier Port Holdings Limited and its subsidiaries for trading in the Company's securities within a listed company environment. The Share Trading Policy is available on the Group's website. This policy is separate from, and in addition to, the legal prohibitions on insider trading in New Zealand, and does not replace legal obligations.

Insider trading is prohibited at all times. Directors and employees who possess material information must not trade in securities, advise or encourage another person to trade or hold the Company's securities, advise or encourage a person to advise or encourage another person to trade or hold the Company's securities, or directly or indirectly disclose or pass on the material information to anyone else, knowing that the other person will or is likely to use that information to trade in the Company's securities.

Restricted persons including the Directors, Chief Executive Officer, Senior Management Team, Trusts and Companies controlled by these persons, and anyone else notified by the Chief Financial Officer, have additional trading restrictions. Restricted persons are prohibited from trading in securities during specific "black-out" periods, from 30 days prior to the Group's half-year and year-end balance dates to the first trading day after the release of the respective periods results to the NZX, 30 days prior to the release of a product disclosure statement for a general public offer, or such other period as determined by the Board.

During any other period restricted persons who do not possess material information may trade the Company's securities subject to notification and consent requirements. Restricted persons may not trade until this written consent has been received.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives".

BOARD CHARTER

Recommendation 2.1: *The Board of an issuer should operate under a written charter which sets out the roles and responsibilities of the Board. The Board charter should clearly distinguish and disclose the respective roles and responsibilities of the Board and Management.*

The Board has adopted a formal Board Charter which sets out the respective roles, responsibilities, composition and structure of the Board, and this is available on the Group's website.

The Board is ultimately responsible for setting the strategic direction of the Group, oversight of the management of the Group and direction of its business strategy, with the ultimate aim being to operate the Group as a successful business, while respecting the rights of other stakeholders. This includes establishing the strategies and financial objectives with the Senior Management Team, monitoring the performance of the Senior Management Team, monitoring compliance and risk management, and ensuring the Group has the appropriate controls and policies in place.

The Board delegates the day-to-day affairs and management responsibilities of the Group to the Chief Executive Officer and Senior Management Team to deliver the strategic direction and goals determined by the Board.

NOMINATION AND APPOINTMENT OF DIRECTORS

Recommendation 2.2 and 2.3: *Every issuer should have a procedure for the nomination and appointment of Directors to the Board. An issuer should enter into written agreements with each newly appointed Director establishing the terms of their appointment.*

The Board have delegated to the Remuneration and Nomination Committee the responsibility to make recommendations to the Board in respect of Board and committee composition and, when required, identify individuals believed to be qualified to become Board members. Procedures for the appointment and removal of directors are set out in the Remuneration and Nomination Committee Charter. To be eligible for selection the candidates must demonstrate appropriate qualities and experience, and the Committee must be satisfied that a candidate will commit the time needed to be fully effective in their role. The Committee will ensure proper checks as to the proposed Director's character, experience, education, criminal record and bankruptcy history are conducted and key information about the proposed Director is provided to shareholders to assist their decision as to whether or not to elect or re-elect the Director.

The whole Board will have the opportunity to consider candidates for appointment to the Board. Directors may be appointed by the Board to fill vacancies or director nominations may be made by shareholders for election at the Annual Meeting of Shareholders. Directors appointed by the Board must stand for re-election at the next Annual Meeting of Shareholders. The NZX Listing Rules and the Group's constitution requires that all directors stand for re-election at the Annual Meeting of Shareholders within three years of last being elected. The Group enters into a written agreement with each newly appointed director establishing the terms of their appointment.

DIRECTORS

Recommendation 2.4: *Every issuer should disclose information about each Director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests and Director attendance at Board meetings.*

The Board currently comprises seven directors; an independent Chair, four directors who are independent, and two other non-executive directors. A profile of experience for each director, including length of service, is available on the Group's website and included in the Annual Report. Director's ownership interests are included in the Other Disclosures section of the Annual Report on page 62.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

For the year ended 30 September 2019[1]

	Board	Audit and Risk Management Committee	Remuneration and Nomination Committee	Health and Safety Committee
Number of meetings held	**12**	**4**	**4**	**2**
Alasdair MacLeod	12	4[2]	4	2
Wendie Harvey[3]	10	4[2]	4	2
Diana Puketapu	12	4	3	2
Stephen Moir	12	4	-	2
Vincent Tremaine[4]	9	2	1[2]	2
John Harvey[4]	8	2	2[2]	2
Blair O'Keeffe[5]	4	-	-	1
Hon Rick Barker[5]	3	-	-	1
Chinthaka Abeywickrama[6]	2	1	-	-

1. The board and committee meeting attendance above include meetings of the board and committees of Port of Napier Limited prior to the incorporation of Napier Port Holdings Limited on 12 June 2019.

2. Non-committee members also in attendance.

3. Wendie Harvey resigned as Director of Port of Napier Limited and Napier Port Holdings Limited on 3 October 2019.

4. Vincent Tremaine and John Harvey were appointed as Directors of Port of Napier Limited on 7 February 2019.

5. Blair O'Keeffe and Hon. Rick Barker were appointed as Directors of Port of Napier Limited and Napier Port Holdings Limited on 27 June 2019.

6. Chinthaka Abeywickrama resigned as Director of Port of Napier Limited on 23 November 2018

DIVERSITY

Recommendation 2.5: *An issuer should have a written diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it.*

The Group has a diversity policy which defines the approach of the Group towards diversity and inclusion. It also identifies the responsibilities of the Board, the Senior Management Team and all of the Group's employees. The diversity policy is available on the website. The Group recognises the value of a diverse and skilled workforce and is committed to embedding diversity and inclusion into employment practices and all aspects of the Group's operations. The Board, Senior Management Team, Managers and Supervisors, and Human Resources will collectively and individually treat all employees equally. The Group will foster an environment which encourages a variety of different viewpoints and backgrounds.

The Board has not reviewed its progress against its Diversity and Inclusion Policy as at the date of this Annual Report as the Diversity and Inclusion Policy was adopted by the Group when Napier Port Holdings Limited was listed on 20 August 2019. The diversity of the Board, Senior Management Team and the Group's employees will be reviewed annually against agreed metrics by the Board. Where necessary and appropriate, initiatives will be implemented to improve diversity.

The following is a breakdown of the gender composition of the Group at the balance date:

	2019*				2018*			
	Female		Male		Female		Male	
	No.	%	No.	%	No.	%	No.	%
Directors	2	25	6	75	2	33	4	67
Senior Management Team	2	25	6	75	1	14	6	86
Permanent employees	46	17	217	83	38	16	201	84
Total	**50**	**18**	**229**	**82**	**41**	**16**	**211**	**84**

* *as at 30 September*

DIRECTOR TRAINING

Recommendation 2.6: *Directors should undertake appropriate training to remain current on how to best perform their duties as Directors of the issuer.*

The Board seeks to ensure that any new Directors are appropriately introduced to the Senior Management Team and the Group's business, that all Directors are acquainted with relevant industry knowledge, and receive appropriate company documents to enable them to perform their role as a Director.

Directors will receive induction training upon appointment, and are expected to maintain appropriate levels of financial, legal and industry understanding throughout their appointment.

BOARD EVALUATION

Recommendation 2.7: *The Board should have a procedure to regularly assess Director, Board and Committee performance.*

The Board undertakes a biennial performance evaluation of itself that discusses and assesses the performance of each Director and the Chair, compares the performance of the Board as a whole with the requirements of the Board Charter, reviews the performance of the Board's Committees, and effects any improvements to the respective Charters deemed necessary or appropriate. The performance evaluation is conducted in the manner the Board deems appropriate. The last Board evaluation was completed in November 2018.

Recommendation 2.8 and 2.9: *A majority of the Board should be independent directors. An issuer should have an independent Chair of the Board. If the Chair is not independent, the Chair and CEO should be different people.*

The Board currently comprises seven directors, five of whom have been determined to be "Independent Directors" by the Board under the NZX Listing Rules. The Chair of the Board is an Independent Director and is not the Chair of the Audit and Risk Management Committee.

PRINCIPLE 3 – BOARD COMMITTEES

"The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility".

AUDIT AND RISK MANAGEMENT COMMITTEE

Recommendation 3.1: *An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should be an independent director and not the chair of the Board.*

The Audit and Risk Management Committee operates under a written charter, which is available on the Group's website. The Committee is required to have a majority of independent non-executive directors, at least two must have an accounting or financial background, and the Committee is required to meet at least two times per year. The Chair of the Committee is an Independent Director who is not the Chair of the Board. The Audit and Risk Management Committee currently comprises Stephen Moir (Chair), Diana Puketapu, Vincent Tremaine and John Harvey. All directors may attend the Committee meetings at their discretion.

The Audit and Risk Management Committee's purpose is to assist the Board in fulfilling its responsibilities to discharge its financial reporting and regulatory responsibilities, ensure the ability and independence of the external auditor to carry out its statutory audit role, ensure an effective internal audit and internal control system is maintained, and ensure an appropriate framework is maintained for the management of strategic and operational risk.

Recommendation 3.2: *Employees should only attend audit committee meetings at the invitation of the audit committee.*

The Chief Executive Officer, Chief Financial Officer and any other employees the Audit and Risk Management Committee considers necessary to provide appropriate information and explanations may attend the Committee on invitation. The Group's external auditor also attends meetings at the Committee's invitation.

REMUNERATION AND NOMINATION COMMITTEE

Recommendation 3.3 and 3.4: *An issuer should have a remuneration committee (which operates under a written charter) unless this is carried out by the whole board. At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee. An issuer should establish a nomination committee to recommend director appointments to the Board (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.*

The Remuneration and Nomination Committee operates under a written charter, which is available on the Group's website. The Committee consists of at least three members of the Board, the majority of the committee which are required to be Independent Directors. The Committee is required to meet at least two times per year. The Chair of the Committee is an Independent Director. The Remuneration and Nomination Committee currently comprises Alasdair MacLeod (Chair), Diana Puketapu, Stephen Moir, Vincent Tremaine, Blair O'Keeffe. All directors of the Board may attend the Committee meetings at their discretion. The Chief Executive will act as secretary to the Committee and other members of management may attend the Committee on invitation.

The primary responsibilities of the Committee include, nominating and appointing directors to the Board, remuneration of directors, remuneration and evaluation of the Chief Executive Officer, review of the Chief Executive Officer's remuneration recommendations for the Senior Management Team, review of the overall Group's salary and incentive policies, and succession planning.

HEALTH AND SAFETY COMMITTEE

Recommendation 3.5: *An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance.*

Health and safety is a strong priority for the Napier Port Board of Directors and health and safety performance is actively reviewed at every board meeting. The Group also has a Health and Safety Committee whose purpose is to assist the Board in fulfilling its responsibilities in respect of the health, safety and wellness requirements within the Health and Safety at Work Act 2015 and regulatory framework. The Health and Safety Committee operates under a written charter, which is available on the Group's website. The Health and Safety Committee operates in the context of the vision that every person goes home safely every day, a culture of care, and strategic objectives relating to people, place and planet.

The Committee consists of all members of the Board, and is required to meet at least four times per year. The Chair of the Committee is not the Chair of the Board. The current Chair of the Committee is Vincent Tremaine. The Committee may on invitation have in attendance members of management including the General Manager Culture and Community, and other persons including senior health and safety staff, that it considers necessary to provide necessary information and explanations. The Chief Executive Officer and the General Manager Culture and Community are responsible for drawing to the Committee's immediate attention any material matter that relates to notifiable events and significant near misses or incidents.

TAKEOVER POLICY

Recommendation 3.6: *The Board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer including any communication between insiders and the bidder. The Board should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.*

Given the Group's shareholding structure, with the Hawke's Bay Regional Council (Council), indirectly controlling approximately 55% of the shares of the Group, the Board considers it highly unlikely that a third-party would make a takeover approach or proposal without the support of Council. Notwithstanding this, the Board consider it prudent to have protocols in place and has established formalised takeover response protocols to assist the Group to prepare for, and respond to any unsolicited approaches or proposals it may receive in relation to a takeover. These protocols would help to inform the Board of their roles and responsibilities with respect to any approach or proposal, assist the Board and its advisers in developing and executing a response strategy, and act as a basic guide on the process for any takeover offer.

In the event of a takeover offer, a Takeover Response Committee, would be convened comprising independent directors, management and appropriate financial, legal and strategic advisers.

PRINCIPLE 4 – REPORTING AND DISCLOSURE

"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures".

CONTINUOUS DISCLOSURE

Recommendation 4.1: *An issuer's board should have a written continuous disclosure policy.*

As a company listed on the NZX Stock Exchange, the Company is committed to keeping the market informed of all material information relating to the Group and its shares. In doing so, the Group will comply with its obligations in relation to continuous disclosure of material information under the NZX Listing Rules. The Group has a Continuous Disclosure Policy, which is available on the Group's website.

CHARTERS AND POLICIES

Recommendation 4.2: *An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.*

Information about the Group's corporate governance framework (including Code of Ethics, Board and Committee Charters, and other key governance policies) are available to view on the Group's website.

FINANCIAL AND NON-FINANCIAL REPORTING

Recommendation 4.3: *Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the Board.*

FINANCIAL REPORTING

The Audit and Risk Management Committee oversees the quality and integrity of financial reporting ensuring the financial reporting is balanced, clear and objective. The Audit and Risk Management Committee's responsibility for the annual and interim financial statements includes, reviewing the quality and acceptability of accounting policies and practices, reporting disclosures and changes thereto, reviewing areas involving significant judgement, estimation or uncertainty, overseeing compliance with financial reporting standards, appropriate laws and regulations, assessing the overall performance of financial management, and approving all financial reporting to shareholders and other stakeholders.

NON-FINANCIAL REPORTING

The Group is committed to implementing a comprehensive environmental, social and governance (ESG) framework. The Group has begun preparatory work and are working towards developing our strategy during the 2020 financial year.

PRINCIPLE 5 – REMUNERATION

"The remuneration of directors and executives should be transparent, fair and reasonable".

DIRECTORS' REMUNERATION

Recommendation 5.1: *An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report.*

The Remuneration and Nomination Committee is responsible to biennially review Director's remuneration to determine whether Director remuneration is appropriate. This review is required to consider benchmarking data from similar listed companies.

In conjunction with Napier Port Holdings Limited listing on the NZX, with effect from 1 September 2019, and in respect of both their roles as directors of Napier Port Holdings Limited and Port of Napier Limited, fees in aggregate for all Directors are $655,000 per annum.

Under Listing Rule 2.11.3, if the total number of Directors subsequently increases, the Directors are permitted (without seeking shareholder approval) to increase the total remuneration by the amount necessary to enable the Group to pay the additional Director or Directors remuneration not exceeding the average amount then being paid to each of the existing Directors (other than the Chair).

Actual remuneration of Directors is included in the Other Disclosures section of the Annual Report on page 62.

REMUNERATION POLICY

Recommendation 5.2: *An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria.*

The Group has adopted a Remuneration Policy which sets out the remuneration principles that apply to the Directors, Chief Executive Officer and Senior Management team. The policy requires that remuneration decisions are fair and reasonable and based on merit, where appropriate. The Group will not discriminate on the grounds of gender, race, religion or belief, disability, age, sexual orientation or gender identity. Remuneration will be set at levels that recognise an individual's market value (i.e. level of skills and experience, the demand for skill and performance in the role, and the commercial environment).

DIRECTORS

The Group's policy is that all remuneration of Directors will be paid in cash, they will not receive any performance-based remuneration or retirement benefits. All Directors (excluding the Chair) will be paid a base fee and additional fees will be payable to the Chairs of the Audit and Risk Management, Remuneration and Nomination, and Health and Safety Committees and the Chair a Chairs' fee, all as recommended by the Remuneration and Nomination Committee and approved by Shareholders from time to time. Included in the aggregate fee sum approved by Shareholders is an additional sum available for application by the Board to respond to extra work undertaken by directors outside of their base fee work.

CHIEF EXECUTIVE OFFICER (CEO) AND SENIOR MANAGEMENT TEAM

Determination of remuneration for the CEO and Senior Management team is subject to a fair and thorough process. Remuneration will be determined by the scale and complexity of the relevant employee's role. An annual remuneration review is undertaken by the Remuneration and Nomination Committee annually.

Under the Group's remuneration framework, individual performance and market relativity are key considerations, balanced by the context in the which the Group operates.

Remuneration of the CEO and Senior Management team, include a mix of fixed and variable components. A summary of the current provisions is as follows:

- Fixed remuneration – this includes the relevant employee's base salary and cash allowances and any direct non-cash benefits (e.g. Kiwisaver contributions, health insurance and annual leave);
- Other variable remuneration – Some Senior Management team positions, including the CEO, are eligible for additional remuneration from Long Term Incentive (LTI) and Short Term Incentive (STI) plans. Eligibility is determined by the Board of Directors and the CEO. The terms and conditions of any STI or LTI plan are identified in the individual employment agreements of the Senior Management team member to whom it applies.

The remuneration policy is reviewed by the Board annually.

CHIEF EXECUTIVE OFFICER (CEO) REMUNERATION

Recommendation 5.3: *An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short-term incentives and long-term incentives and the performance criteria used to determine performance-based payments.*

The remuneration of the CEO for the year ended 30 September 2019 is included in the Other Disclosures section of the Annual Report on page 62.

The remuneration of the CEO includes a mix of fixed and variable components. Fixed remuneration includes a base salary, life insurance and superannuation contributions. Variable components include a Short Term Incentive (STI) linked to objectives set annually and performance assessed by the Board and Long Term Incentive (LTI). The LTI grants share rights to the CEO that will vest at the completion of a three year vesting period. The proportion of share rights that will actually vest depends on the CEO's continuous employment during the vesting period, the achievement of certain EBITDA targets over the prospective financial information period (2 years), and total shareholder return (TSR) hurdles over the vesting period (including Group's TSR performance relative to the NZX50 index).

PRINCIPLE 6 – RISK MANAGEMENT

"Directors should have a risk management framework for its business and the Board's should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed".

RISK MANAGEMENT

Recommendation 6.1: *An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed.*

The Board and Senior Management Team are committed to managing risk to protect our people, the environment, financial business risks, company assets and our reputation. The Audit and Risk Management Committee is responsible for ensuring that management is implementing the Group's risk management framework and policies.

The Group has a comprehensive risk management system in place which is used to identify and manage business risks. The system identifies the key risks facing the Group and the status of initiatives employed to reduce them. Management report to the Board periodically, on the effectiveness of the Group's management of these material risks. As part of risk management the Group also has a comprehensive treasury policy that sets out procedures to minimise financial market risk. The Group maintains insurance policies that it considers adequate to meet insurable risks.

HEALTH AND SAFETY

Recommendation 6.2: *An issuer should disclose how it manages its health and safety risks and should report on its health and safety risks, performance and management.*

The Group aims to be the safest port environment in New Zealand and ensuring that everyone working at Napier Port returns safely to their families every day. To ensure a safe and healthy work environment, the Group has developed and maintains a health and safety management system that will manage safety performance and promote a safety culture.

Managing safety performance will be achieved by:

- Setting health and safety objectives and performance criteria for all work areas, tracking performance through lead and lag indicators, identifying trends and implementing appropriate responses;
- Ensuring our health and safety framework is reviewed at least annually;
- Actively encouraging accurate and timely reporting of all accidents, incidents, near misses and unsafe conditions;
- Ensuring all reported accidents, incidents, near misses are investigated and root cause analyses conducted;
- Ensuring risk assessments are conducted, controls are identified and implemented based on those assessments and where necessary updated where risks or controls may have changed;
- In the event of an injury ensuring the Group takes an active role in employee's safe and early return to work;
- Ensuring the company meets its obligations under the Health and Safety at Work Act 2015, associated regulations, codes of practice and standards and guidelines regulating worker health and safety.

Promoting a safety culture by:

- Supporting a "Just Culture" philosophy where health and safety is supported and promoted through enabling worker participation, ensuring adequate resources are allocated to health and safety initiatives and providing training and information about specific health and safety risks; and
- Promoting continuous improvement and good practice in health and safety.

Every Director or Officer, Senior Manager, Middle Manager, Team Leader/Supervisor and worker is expected to share in this commitment to this policy by following the duties and responsibilities specified in the Napier Port Health and Safety Duties and Responsibilities Policy.

PRINCIPLE 7 – AUDITORS

"The Board should ensure the quality and independence of the external audit process".

EXTERNAL AUDIT

Recommendation 7.1 and 7.2: *The Board should establish a framework for the issuer's relationship with its external auditors. This should include procedures prescribed in the NZX Code. The external auditor should attend the issuer's annual meeting to answer questions from shareholders in relation to the audit.*

The Audit and Risk Management Committee is responsible for the oversight of the Group's external audit arrangements. These arrangements include procedures for the matters described in Recommendation 7.1 of the NZX Code.

Subject to any requirements of the Auditor General, the Audit and Risk Management Committee is responsible for, recommending the appointment and removal of the independent auditor. The Committee is also responsible for reviewing the independence of the external auditors and the appropriateness of any non-audit services they undertake, having direct communication with, and unrestricted access to, the independent auditor, and ensuring that the key audit partner (as defined in the NZX Listing Rules) is rotated every five years.

The auditor of the Group is the Auditor General. The Auditor General may approve external audit firms to undertake the external audit of the Group. The Group's external auditor is EY. The total fees paid to EY in their capacity as auditor are disclosed in the Annual Report on page 74.

The group invites EY to attend the Annual Meeting of Shareholders and the audit partner is available to answer shareholder questions about the conduct of their audit and the preparation and content of the auditor's report.

INTERNAL AUDIT

Recommendation 7.3: *Internal audit functions should be disclosed.*

The Audit and Risk Management Committee is responsible for ensuring an effective internal audit programme and internal control system is maintained. These responsibilities include reviewing the objectives and scope of the internal audit programme, ensuring these are aligned with Napier Port's overall risk management framework, and reviewing significant matters reported by the internal audit programme and how management is responding to them.

The Group engages external providers to undertake internal audits.

PRINCIPLE 8 – SHAREHOLDER RIGHTS AND RELATIONS

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer".

SHAREHOLDER INFORMATION

Recommendation 8.1: *An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.*

The Group is committed to providing shareholders with all information necessary to assess the Group's direction and performance.

This is done through a range of communication methods, including continuous disclosure to NZX, half-year and annual reports and the Annual Shareholders' Meeting. The Group's website provides company and financial information, information about its directors, and copies of its governance documents for shareholders and other interested stakeholders to access at any time.

Recommendation 8.2: *An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.*

Shareholders have the option of receiving their communications electronically, including by email. The Group is committed to open dialogue with shareholders and welcomes investor enquiries.

Recommendation 8.3 and 8.4: *Quoted equity security holders should have the right to vote on major decisions which may change the nature of the issuer in which they are invested. If seeking additional equity capital, issuers of quoted equity securities should offer further equity securities to existing equity security holders of the same class on a pro rata basis, and on no less favourable terms, before equity securities are offered to other investors.*

In accordance with the Companies Act 1993, the Company's constitution, the NZX Listing Rules, and other applicable laws, the Group refers any significant matters to Shareholders for approval at a Shareholders' meeting.

Recommendation 8.5: *The Board should ensure that the notices of annual or special meetings of quoted equity security holders is posted on the issuer's website as soon as possible and at least 20 working days prior to the meeting.*

The Group posts any Notices of Shareholder Meetings as soon as possible and seeks, where possible, to provide these at least 20 working days prior to the Shareholders' meeting.

NAPIER PORT HOLDINGS LIMITED

OTHER DISCLOSURES

PRINCIPAL ACTIVITIES

The other disclosure information below has been prepared for Napier Port Holdings Limited and its subsidiaries (the Group). Napier Port Holdings Limited (the Company) was incorporated on 12 June 2019 and is the parent company of Port of Napier Limited. The disclosures have been prepared on the basis that the entities were combined from the beginning of the earliest period presented. The Group's principal activities remain the commercial operation of Napier Port. There has been no significant change in the nature of the Group's business during the year.

DIRECTORS' INTERESTS

The Company is required to maintain an Interests Register in which particulars of certain transactions and matters involving the Directors must be recorded. The matters set out below were recorded in the Interest Register of the Company during the financial year. The Directors of the Company have declared interests in the following identified entities as at 30 September 2019:

Director	Interest	Entity
Alasdair MacLeod	Chair	Optimal Workshop Limited
	Chair / Shareholder	Silverstripe Limited
	Chair	Hold Fast Investments Limited
	Member	IHC – Board Appointments Committee
	Director	Silverstripe Trustee Limited
	Trustee	Big Brothers Big Sisters Hawke's Bay
Wendie Harvey *(resigned 3 October 2019)*	Chair	Hawke's Bay Airport Construction Limited
	Director / Shareholder	Excellence in Business Solutions Limited
	Director	Centralines Limited
	Director	The Electrical Training Company Limited
	Director	Hawke's Bay Airport Limited
	Director	Aurora Energy Limited
	Commissioner	New Zealand Gambling Commission
	Council Member	Eastern Institute of Technology
	Board Member	Fire and Emergency New Zealand
Diana Puketapu	Director	Manawanui Support Limited
	Director	Ngati Porou Holding Company Limited and subsidiaries
	Director	Tamaki Redevelopment Company Limited and subsidiaries
	Director	New Zealand Cricket
	Director	New Zealand Olympic Committee
Stephen Moir	Director	The Guardians of NZ Superannuation Fund
	Director	Todd Family Office Limited
	Director	IJAP Limited
Vincent Tremaine	Chair	Riverland Water Holdings Pty Limited
	Director / Member	Statewide Superannuation Pty Limited
	Director	SouthernLaunch.Space Pty Limited –Advisory Board
John Harvey	Director	Heartland Bank Limited
	Director	Investore Property Limited
	Director	Stride Property Limited
	Director	Stride Investment Management Services Limited
	Director	Kathmandu Holdings Limited
Blair O'Keeffe	Chief Executive Officer	Hawke's Bay Regional Investment Company
	Chair	Hawke's Bay Rescue Helicopter Trust
	Director	Central Air Ambulance Rescue Limited
	Director	Central Economic Development Agency Limited
	Director	Z Energy Limited
Hon Rick Barker	Deputy Chair / Councillor	Hawke's Bay Regional Council

At 30 September 2019 no Directors, or entities related to them, had interests in shares in the Company.

DIRECTORS' INSURANCE

All directors are beneficiaries of a company indemnity and directors' liability insurance provided by the Company in relation to any personal liabilities and associated costs incurred while acting in their capacity as a director of the company, other than arising from criminal liability, where precluded by statute, or from breach of a director's fiduciary duty to the company.

REMUNERATION

EMPLOYEE REMUNERATION

The number of employees and former employees of the Group who, during the year, received total annual remuneration greater than $100,000 are shown below:

Remuneration range	Number of employees 2019
$100,000 - $109,999	22
$110,000 - $119,999	24
$120,000 - $129,999	26
$130,000 - $139,999	12
$140,000 - $149,999	8
$150,000 - $159,999	4
$160,000 - $169,999	2
$180,000 - $189,999	2
$190,000 - $199,999	1
$220,000 - $229,999	1
$230,000 - $239,999	-
$240,000 - $249,999	-
$250,000 - $259,999	3
$260,000 - $269,999	3
$270,000 - $279,999	1
$280,000 - $289,999	1
$290,000 - $299,999	1
$300,000 - $309,999	1
$340,000 - $349,999	1
$350,000 - $359,999	1
$540,000 - $549,999	-
$660,000 - $669,999	1
	115

The annual remuneration of employees includes salary, redundancy, performance incentive payments on achievement of targets, employer's contribution to superannuation, fair value of share-based payment awards and other sundry benefits received in their capacity as employees.

DIRECTORS' REMUNERATION

Directors received the following fees and remuneration during the year[1]:

	2019 $000
Alasdair MacLeod (Chairman)	103,979
Stephen Moir	60,782
Wendie Harvey	60,782
Diana Puketapu	57,198
John Harvey [2]	42,156
Vincent Tremaine [2]	42,156
Blair O'Keeffe [3]	13,354
Hon Rick Barker [3]	13,354
Chinthaka Abeywickrama [4]	7,521
Total	**401,282**

1. *The directors' remuneration above includes fees and remuneration paid for Port of Napier Limited and Napier Port Holdings Limited (from June 2019). From 1 September 2019, Directors fees have been set for the Chair of the Board ($135,000 per annum), Directors other than the Chair ($70,000 per annum), and Committee Chairs (additional $10,000 per annum).*
2. *John Harvey and Vincent Tremaine were appointed as Directors of Port of Napier Limited on 7 February 2019.*
3. *Blair O'Keeffe and Rick Barker were appointed as Directors of Port of Napier Limited and Napier Port Holdings Limited on 27 June 2019.*
4. *Chinthaka Abeywickrama resigned as Director of Port of Napier Limited on 23 November 2018.*

CHIEF EXECUTIVE OFFICER'S (CEO'S) REMUNERATION

The CEO received the following remuneration and other benefits paid during the year[1]:

	2019 $000
Base salary	509
Other benefits[2]	19
Short Term Incentive (STI)[3]	132
Fair Share Loan[4]	1
Long Term Incentive (LTI)[5]	4
	665

1. *The CEO's base salary, other benefits and short-term incentive are based on the amounts paid during the year. The Fair Share Loan and Long Term Incentive are based on the fair value of the awards recognised in the income statement.*

2 *Other benefits comprise superannuation and life insurance benefits.*

3 *The STI target is based on the achievement of objectives set annually and performance assessed by the Board.*

4 *The CEO purchased 1,923 shares with an interest-free limited recourse loan under the Fair Share Plan in August 2019.*

5 *In August 2019 the CEO was granted 62,307 share rights under the Executive LTI plan. These share rights have a three year vesting period and entitle the CEO to the receipt of one Napier Port Holdings Limited ordinary share per share right at nil cost, plus additional shares to the value of any dividends which would have been paid on the underlying shares during the vesting period. Vesting is subject to the CEO remaining employed by the Group during the vesting period, the achievement of certain EBITDA targets over the prospective financial information period (2 years), and total shareholder return (TSR) hurdles over the vesting period. The proportion of share rights that will actually vest depends on the Group's TSR performance ranking relative to the NZX50 index. To the extent that performance hurdles are not met or the CEO leaves employment of the Group prior to vesting, the share rights will be forfeited. The above amount reflects the current period's proportion of the total fair value of the award calculated, which is recognised on a straight-line basis over the three-year vesting period. Further information on the Executive LTI plan is available in the document titled "Other Material Information" forming part of the Company's IPO documents available on the Disclose Register operated by the New Zealand Companies Office.*

SHAREHOLDER INFORMATION

The ordinary shares of Napier Port Holdings Limited are listed on the NZX. The information in the disclosures below has been taken from the Company's registers as at 30 September 2019.

TWENTY LARGEST SHAREHOLDERS AT 30 SEPTEMBER 2019

Holder	Number of Shares Held	% of Issued Equity
Hawke's Bay Regional Investment Company Limited	110,000,000	55.0
National Nominees New Zealand Limited[1]	14,001,016	7.00
JB Were (NZ) Nominees Limited	4,548,662	2.27
HSBC Nominees (New Zealand) Limited[1]	4,000,351	2.00
Citibank Nominees (New Zealand) Limited[1]	3,788,025	1.89
Forsyth Barr Custodians Limited	3,401,353	1.70
JP Morgan Chase Bank[1]	2,800,873	1.40
BNP Paribas Nominees NZ Limited[1]	2,783,802	1.39
Accident Compensation Corporation[1]	2,542,222	1.27
Custodial Services Limited <4 A/C>	2,228,338	1.11
Custodial Services Limited <3 A/C>	2,020,019	1.01
TEA Custodians Limited[1]	1,766,916	0.88
FNZ Custodians Limited	1,746,355	0.87
PT Booster Investments Nominees Limited	1,506,426	0.75
Tatau Tatau Commercial Limited	1,442,307	0.72
Private Nominees Limited[1]	1,211,641	0.61
MMC Limited[1]	1,036,538	0.52
New Zealand Permanent Trustees Limited[1]	968,200	0.48
Custodial Services Limited <2 A/C>	923,896	0.46
Investment Custodial Services Limited	909,095	0.45
Total	**163,626,035**	**81.78**

1. Shareholdings held in New Zealand Central Securities Depository Limited (NZCSD). The total holding at 30 September 2019 in NZCSD was 39,624,580.

DISTRIBUTION OF ORDINARY SHARES

Holder	Number of Holders	Number of Shares Held	% of Issued Equity
1 – 5,000	8,391	16,591,056	8.30
5,001 – 10,000	526	3,883,257	1.94
10,001 – 100,000	223	5,022,547	2.51
100,001 and over	33	174,503,140	87.25
Total	**9,173**	**200,000,000**	**100.00**

GEOGRAPHIC DISTRIBUTION

Holder	Number of Holders	Number of Shares Held	% of Issued Equity
New Zealand	9,152	198,985,262	99.49
Australia	16	905,238	0.45
Other	5	109,500	0.06
Total	**9,173**	**200,000,000**	**100.00**

SUBSTANTIAL SECURITY HOLDERS

The following information is given in accordance with sub-part 5 of Part 5 of the Financial Markets Conduct Act 2013. According to notices received, the following persons were substantial product holders in the Company as at 30 September 2019.

Holder	Number of Shares Held	Date of substantial product holder notice	% of Issued Equity
Hawke's Bay Regional Investment Company Limited	**110,000,000**	**20 August 2019**	**55%**

SUBSIDIARY COMPANY DIRECTORS

All directors of Napier Port Holdings Limited are also directors of Port of Napier Limited (the subsidiary of the Company).

DONATIONS

During the year the Company made donations of $nil (2018: $nil) and subsidiaries made donations amounting to $nil (2018: $nil).

WAIVERS FROM NZX LISTING RULES

Napier Port Holdings Limited has not obtained or relied on any waivers from NZX Listing Rules in the financial year ended 30 September 2019.

AUDIT FEES AND OTHER SERVICES

Under Section 19 of the Port Companies Act 1988, the Auditor-General is the auditor of the Company. The Auditor-General has appointed Ernst & Young to undertake the audit on its behalf, pursuant to Section 15 of the Public Act 2001.

Fees paid to the auditors are disclosed in the financial statements in note 5.

CREDIT RATING

Napier Port Holdings Limited does not have a credit rating at the date of this Annual Report.

EXERCISE OF NZX DISCIPLINARY POWERS

NZX did not exercise any of its powers under Listing Rule 9.9.3 in relation to the Company in the financial year ended 30 September 2019.

NAPIER PORT HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 $000	2018 $000
Revenue	4	**99,616**	**91,749**
Employee benefit expenses		29,454	26,352
Maintenance expenses		9,073	9,236
Other operating expenses	5	19,102	17,250
Operating expenses		**57,629**	**52,838**
Results from operating activities	25	**41,987**	**38,911**
Depreciation, amortisation and impairment expenses	16,17	12,171	10,984
Other (income) and expenses	5	(135)	(709)
IPO transaction and related costs		6,404	-
Share of loss and impairment of investment in joint venture	19	1,080	94
Profit before finance costs and tax		**22,467**	**28,542**
Net finance costs	6	10,437	4,107
Profit before income tax		**12,030**	**24,435**
Income tax expense	7	5,182	6,859
Profit for the period attributable to the shareholders of the Company		**6,848**	**17,576**

EARNINGS PER SHARE:			
Basic earnings per share	9	0.06	0.16
Diluted earnings per share	9	0.06	0.16

The above income statement should be read in conjunction with the accompanying notes

NAPIER PORT HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 $000	2018 $000
Profit for the period attributable to the shareholders of the Company		6,848	17,576
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes in fair value of cash flow hedges		(2,835)	(1,814)
Cash flow hedges transferred to profit or loss		8,345	1,440
Deferred tax on changes in fair value of cash flow hedges	8	(1,543)	105
Items that will not be reclassified to profit or loss:			
Deferred tax on revaluation of sea defences	8	4,374	-
Total comprehensive income for the period attributable to the shareholders of the Company		**15,189**	**17,307**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

NAPIER PORT HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	Share Capital $000	Revaluation Reserve $000	Hedging Reserve $000	Share-based Payment Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 October 2018		**21,000**	**71,077**	**(3,823)**	**-**	**124,158**	**212,412**
Profit for the period		-	-	-	-	6,848	6,848
Other comprehensive income		-	4,374	3,967	-	-	8,341
Total comprehensive income for the period		**-**	**4,374**	**3,967**	**-**	**6,848**	**15,189**
Business reorganisation	11	-	-	-	-	(63,900)	(63,900)
Dividends (pre initial public offering)	10	-	-	-	-	(53,957)	(53,957)
Issue of ordinary shares	11	234,000	-	-	-	-	234,000
Transaction costs arising on share issuance	11	(7,045)	-	-	-	-	(7,045)
Acquisition of treasury shares	21,11	(323)	-	-	-	-	(323)
Fair share loans to employees	21,11	(1,228)	-	-	-	-	(1,228)
Share-based payments	21	-	-	-	333	-	333
Total transactions with owners in their capacity as owners		**225,404**	**-**	**-**	**333**	**(117,857)**	**107,880**
Total movement in equity		**225,404**	**4,374**	**3,967**	**333**	**(111,009)**	**123,069**
Balance at 30 September 2019		**246,404**	**75,451**	**144**	**333**	**13,149**	**335,481**
Balance at 1 October 2017		**21,000**	**71,077**	**(3,554)**	**-**	**116,582**	**205,105**
Profit for the period		-	-	-	-	17,576	17,576
Other comprehensive income		-	-	(269)	-	-	(269)
Total comprehensive income for the period		**-**	**-**	**(269)**	**-**	**17,576**	**17,307**
Dividends	10	-	-	-	-	(10,000)	(10,000)
Total transactions with owners in their capacity as owners		**-**	**-**	**-**	**-**	**(10,000)**	**(10,000)**
Total movement in equity		**-**	**-**	**(269)**	**-**	**7,576**	**7,307**
Balance at 30 September 2018		**21,000**	**71,077**	**(3,823)**	**-**	**124,158**	**212,412**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

NAPIER PORT HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

	Notes	2019 $000	2018 $000
EQUITY			
Share capital	11	246,404	21,000
Reserves	11	75,928	67,254
Retained earnings		13,149	124,158
		335,481	**212,412**
NON-CURRENT LIABILITIES			
Loans and borrowings	14	-	80,491
Deferred tax liability	8	18,436	21,848
Lease liabilities	20	734	-
Derivative financial instruments	24	-	3,731
Provisions for employee entitlements	13	436	417
		19,606	**106,487**
CURRENT LIABILITIES			
Bank overdraft		-	109
Taxation payable		3,358	2,003
Lease liabilities	20	200	-
Derivative financial instruments	24	-	1,579
Trade and other payables	12	12,471	9,369
		16,029	**13,060**
		371,116	**331,959**
NON-CURRENT ASSETS			
Property, plant and equipment	17	317,185	309,612
Intangible assets	16	1,110	1,336
Investment in joint venture	19	-	850
Investment properties	18	8,200	7,970
		326,495	**319,768**
CURRENT ASSETS			
Cash and cash equivalents		31,224	-
Derivative financial instruments	24	200	-
Trade and other receivables	15	13,197	12,191
		44,621	**12,191**
		371,116	**331,959**

On behalf of the Board of Directors, who authorised the issue of these financial statements on the 18th November 2019.

Chairman

Director

The above statement of financial position should be read in conjunction with the accompanying notes.

NAPIER PORT HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	2019 $000	2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	99,132	90,705
Cash was applied to:		
Payments to suppliers and employees	(56,028)	(50,602)
IPO transaction and related costs	(5,643)	-
Net finance costs paid	(3,287)	(4,348)
Income taxes paid	(4,407)	(6,820)
Net GST paid	(431)	(571)
Net cash flows generated from operating activities	**29,336**	**28,364**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	162	95
Cash was applied to:		
Acquisition of property, plant and equipment and intangible assets	(17,419)	(15,589)
Investment in joint venture	(230)	(110)
Net cash flows used in investing activities	**(17,487)**	**(15,604)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from issue of ordinary shares	234,000	-
Cash was applied to:		
Net repayment of loans and borrowings	(80,500)	(3,100)
Termination of interest rate swaps	(7,141)	-
Acquisition of treasury shares	(323)	-
Fair Share loans to employees to acquire shares	(1,228)	-
Transaction costs arising on share issuance	(6,646)	-
Borrowing establishment costs	(632)	-
IPO proceeds transferred to HBRIC as part consideration for shares of PONL	(63,900)	-
Dividends paid	(53,957)	(10,000)
Repayment of lease liabilities	(189)	-
Net cash flows generated from/ (used in) financing activities	**19,484**	**(13,100)**
Net increase/ (decrease) in cash and cash equivalents	**31,333**	**(340)**
Cash and cash equivalents at beginning of the year	(109)	231
Cash and cash equivalents at end of the year	**31,224**	**(109)**

NAPIER PORT HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Reconciliation of profit for the period to cash flows from operating activities

	2019 $000	2018 $000
Profit for the period	**6,848**	**17,576**
Adjust for non-cash items:		
Fair value gains	(230)	(685)
Depreciation and amortisation	11,981	10,849
Impairment of assets	190	135
Net loss/(gain) on sale of property, plant and equipment	(15)	(24)
Share of loss and impairment from investment in joint venture	1,080	94
Share-based payments	333	-
Other non-cash items	9	-
Deferred tax	(581)	291
	12,767	**10,660**
Other adjustments:		
Termination of interest rate swaps included in financing activities	7,141	-
Increase/(decrease) in current tax	1,355	(252)
Increase in non-current provisions	19	47
	8,515	**(205)**
Movements in working capital:		
Increase in trade and other receivables	(374)	(300)
Increase in trade and other payables	1,580	633
	1,206	**333**
Net cash flows generated from operating activities	**29,336**	**28,364**

The above statement of cash flows should be read in conjunction with the accompanying notes.

NAPIER PORT HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 REPORTING ENTITY

The financial statements presented are those of Napier Port Holdings Limited and its subsidiaries (together 'the Group'). Napier Port Holdings Limited is incorporated under the Companies Act 1993 and domiciled in New Zealand. Napier Port Holdings Limited's shares are publicly traded on the New Zealand Stock Exchange (NZX).

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Companies Act 1993, Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

STATEMENT OF COMPLIANCE WITH NZ IFRS

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for NZ GAAP purposes. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other Financial Reporting Standards as applicable to the Group as a for-profit entity, and International Financial Reporting Standards (IFRS).

BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for sea defences, investment properties and derivative financial instruments, which are measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand Dollars (NZD), which is the Group's functional and presentation currency and are rounded to the nearest thousand dollars ($'000), unless otherwise stated.

USE OF JUDGEMENTS AND ESTIMATES

In applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

In particular, significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are as follows:

- Valuation of sea defences (note 17)
- Estimation of useful lives and residual values for depreciation expense (note 17)
- Deferred taxes (note 8)
- The application of pooling of interests method to transactions carried out under common control (note 3)
- The allocation of IPO transaction and related costs between equity raising costs (deducted from equity) and those expense (note 11).

Assessments of materiality require judgement and includes consideration of relevant qualitative and quantitative factors. Information that is considered material and relevant to understanding these financial statements is included within the notes accompanying the financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below or, where an accounting policy is directly related to an individual note, within the accompanying notes to the financial statements. These policies have been consistently applied to the years presented unless otherwise stated.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group at 30 September 2019 and 30 September 2018.

Subsidiaries are those entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its investment in the entity, and has the ability to affect those returns through its power over the entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. The effects of intercompany transactions are eliminated in preparing the consolidated financial statements.

ACQUISITION OF SUBSIDIARY SUBJECT TO COMMON CONTROL

On 15 July 2019, Napier Port Holdings Limited (NPHL) acquired 100% of the issued share capital of Port of Napier Limited (PONL) from Hawke's Bay Regional Investment Company Limited (HBRIC). This constitutes a transaction under common control as both entities were ultimately controlled by the same party and as such the transaction is not within the scope of NZ IFRS 3 Business Combinations.

The pooling of interests method has been adopted to account for the acquisition as a business combination carried out under common control. Under this method pre-transaction carrying values are used. Cash paid to HBRIC in conjunction with this reorganisation has been treated similar to a dividend and deducted from retained earnings. The financial statements have been prepared as if PONL and NPHL were consolidated for all of the periods presented. Historical information relates to PONL as NPHL was only incorporated shortly before the transaction and had not conducted any business prior to acquiring PONL.

OTHER TAXES

Revenue, expenses, assets and liabilities are recognised net of the amount of GST, except receivables and payables, which are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a basis net of the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD which is classified as part of operating cash flows.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, and bank deposits and other highly liquid investments that are readily convertible to cash and have a maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of transaction. At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these are included in the Income Statement.

NEW STANDARDS ADOPTED

The following new standards have been adopted and applied by the Group for the first time for its annual reporting period commencing 1 October 2018:

NZ IFRS 9 Financial Instruments

The Group has applied NZ IFRS 9 Financial Instruments retrospectively and has elected not to restate any comparative information. The implementation of NZ IFRS 9 has resulted in changes in accounting policies, as follows:

Classification and measurement

From 1 October 2018, the Group classifies its financial assets and financial liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification and measurement analysis of financial instruments has not resulted in any reclassification between measurement categories for the Group's financial assets and liabilities. Derivative financial instruments that are in cash flow hedge relationships are measured at fair value through other comprehensive income, and other financial instruments (including cash and cash equivalents (if any), trade and other receivables, trade payables and loans and borrowings) are measured at amortised cost.

Impairment

On adoption of NZ IFRS 9, the Group assesses on a forward-looking basis, the expected credit loss associated with its financial assets carried at amortised cost. At each reporting date, the credit risk on a financial asset, apart from trade receivables, is assessed to determine whether there has been a significant increase in the credit risk. In assessing whether there has been a significant increase in credit risk, the Group considers both forward looking information and the financial history of counterparties to assess the probability of default or likelihood that full settlement will not be received. For trade receivables, the simplified approach to measuring expected credit loss is adopted, which uses a lifetime expected loss allowance.

Based on an assessment carried out, the impairment loss arising on financial assets was immaterial. As a result, there were no measurement changes required to the financial statements upon implementation of NZ IFRS 9.

Under the previous accounting policy, in accordance with NZ IAS 39, trade receivables were recognised initially at fair value and subsequently measured at amortised cost and the carrying value of trade receivables were reduced to the estimated recoverable amount when collection was no longer probable.

Hedging

Interest rate swaps in place at 30 September 2018 also qualified as cash flow hedges under NZ IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and such swaps were therefore treated as continuing hedges.

NZ IFRS 15 Revenue from Contracts with Customers

The Group has adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 October 2018, adopting the new rules retrospectively. Accounting policies have been changed to reflect the principles in the standard, but resulted in no material adjustments to amounts recognised in the financial statements. Accordingly, the Group has not been required to adjust comparatives or present a third balance sheet. Refer to note 4 for revenue recognition accounting policies and the disaggregated revenue disclosures.

NZ IFRS 16 Leases

The Group has elected to early adopt NZ IFRS 16 Leases. In accordance with the transition provisions in NZ IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 October 2018. Comparative information has not been restated.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in each lease which is immaterially different from the incremental borrowing rate. The weighted average interest rate applied to lease liabilities on 1 October 2018 was 6.1%.

The difference between the lease commitments disclosed at 30 September 2018 of $1,311,000 and the lease liability on initial recognition on 1 October 2018 of $1,123,000 is due to discounting the operating lease commitments.

	$000
Operating lease commitments disclosed as at 30 September 2018	1,311
Discounted using the incremental borrowing rate	1,123
Lease liability recognised as at 1 October 2018	**1,123**

Right-of use assets within Property, Plant and Equipment were measured at the amount equal to the lease liability, at the transition date of $1,123,000. The net impact on retained earnings on 1 October 2018 was nil.

In applying NZ IFRS 16, the Group has continued to account for lease payments on operating leases with a lease term of 12 months or less in the income statement on a straight-line basis over the lease term.

Comparatives

Certain immaterial adjustments have been made to prior year comparatives to align with the current year disclosure.

4 REVENUE AND SEGMENT REPORTING

	2019 $000	2018 $000
Disaggregation of revenue		
Port operations	97,536	89,884
Property operations	2,080	1,865
Operating Income	**99,616**	**91,749**

Rental income on investment properties within property operations was $56,750 during the year.

ACCOUNTING POLICIES:

Port operations

Port operations are a series of distinct performance obligations for the provision of marine, berthage and port infrastructure services to the Group's customers which are accounted for as a single performance obligation. Revenue is recognised over-time using the percentage of completion method.

Revenue is measured based on the service price specified in the relevant tariffs or specific customer contract. The contract price for the services performed reflects the value transferred to the customer.

Property operations

Investment property lease income is recognised on a straight-line basis over the period of the lease term.

Operating segments

The Group determines its operating segments based on internal information that is regularly reported to the Chief Executive, who is the Group's Chief Operating Decision Maker (CODM).

The Group operates in one reportable segment being Port Services. This consists of providing and managing port services and cargo handling infrastructure through Napier Port. Within the Port Services reportable segment the following operating segments have been identified: marine services, general cargo services, container services, port pack services and depot services. These have been aggregated on the basis of similarities in economic characteristics, customers, nature of services and risks.

The Group operates in one geographic area, that being New Zealand. During the year the Group had a single external customer which comprised 11% of total revenue.

5 OTHER INCOME AND EXPENSES

	2019 $000	2018 $000
Included within other operating expenses are:		
Auditor remuneration - audit fees	187	148
Auditor remuneration - non audit services	732	-
Directors' fees	449	311
Operating leases	-	248

Auditor remuneration - non audit services comprises fees to EY for remuneration benchmarking (a non-assurance service) and as investigating accountant in relation to the public disclosure statement and register entry issued as part of the IPO (an assurance service).

	2019 $000	2018 $000
Included within other income and expenses are:		
Gain on sale of property, plant and equipment	(15)	(24)
Asset retirement expenses	110	-
Fair value gain on investment property	(230)	(685)
Other (income) and expenses	**(135)**	**(709)**

6 NET FINANCE COSTS

	Note	2019 $000	2018 $000
Interest income		(136)	-
Finance income		**(136)**	**-**
Interest expense on borrowings		3,616	4,367
Termination of interest rate swaps		7,141	-
Lease imputed interest	20	61	-
Less: Interest capitalised to property, plant & equipment		(245)	(260)
Finance expenses		**10,573**	**4,107**
Net finance costs		**10,437**	**4,107**

The weighted average interest rate on interest capitalised during the year was 4.7%.

In August 2019 the Group's external loans and borrowings were repaid and interest rate swap agreements in place were terminated. The fair value of the interest rate swaps at the termination date was reclassified from the hedging reserve within equity to profit and loss.

ACCOUNTING POLICIES:
Borrowing costs are expensed as incurred except when they are directly attributable to the acquisition of a qualifying asset. When this is the case borrowing costs are capitalised during the period of time that is required to complete the asset for its intended use or sale.

7 INCOME TAX EXPENSE

	Note	2019 $000	2018 $000
Reconciliation between income tax expense and tax expense calculated at the statutory income tax rate:			
Profit before income tax		12,030	24,435
Income tax at 28%		3,368	6,842
Adjustment to prior year tax		161	193
Tax effect of non-deductible items		1,717	17
Tax effect of non-assessable items		(64)	(193)
Income tax expense		**5,182**	**6,859**
The income tax expense is represented by:			
Current tax on profits for the year		5,684	6,568
Adjustments for current tax of prior periods		79	-
Current income tax expense		5,763	6,568
Deferred income tax expense	8	(581)	291
Income tax expense		**5,182**	**6,859**

ACCOUNTING POLICIES:
The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

8 DEFERRED TAX LIABILITY

	2019 $000	2018 $000
Balance 1 October	(21,848)	(21,662)
Adjustment to prior year provision	(82)	-
Deferred portion of current year tax expense	663	(291)
Amounts credited and charged direct to equity	2,831	105
Balance at 30 September	**(18,436)**	**(21,848)**
Deferred tax is represented by:		
Deferred tax asset		
Fair value losses on derivatives	-	1,487
Share-based payments	93	-
Other	807	613
	900	**2,100**
Deferred tax liability		
Property, plant and equipment	(9,112)	(9,342)
Revaluation of sea defences	(10,168)	(14,606)
Fair value gains on derivatives	(56)	-
	(19,336)	**(23,948)**
Net deferred tax liability	**(18,436)**	**(21,848)**
Imputation credit account		
Balance at 30 September	**3,834**	**22,514**

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax;
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date.

Deferred tax on sea defences
Management reviewed the assumptions applied in determining the value of the residual portion of revalued sea defence assets for deferred tax purposes during the year. The estimate of residual value has increased by $17 million as the percentage of replacement cost estimated to be residual value increased from 20% to a range of 25 - 50% of the sea defence assets. This resulted in a reduction in deferred tax liability of $4.4 million and a corresponding increase in the Revaluation Reserve within Equity.

ACCOUNTING POLICIES:
Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets or liabilities does not affect neither accounting nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and subsequently reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured based on the tax consequences that follow from the manner of their expected recovery or settlement, the determination of which requires the application of judgement and estimates. Deferred tax liabilities are not recognised for fair value adjustments to land, including the estimated residual portion of revalued sea defence assets and investment properties, as their value is deemed to be recoverable through eventual sale. Whether the residual portion of revalued sea defence assets are non-depreciable and recoverable through eventual sale is a significant judgment in the determination of deferred tax balances as is the estimation of this non-depreciable amount.

9 EARNINGS PER SHARE

	2019 Cents	2018 Cents
Basic earnings per share		
Basic earnings per share	0.06	0.16
Diluted earnings per share		
Diluted earnings per share	0.06	0.16

	2019 $000	2018 $000
Reconciliation of earnings used in calculating earnings per share:		
Basic and diluted earnings per share		
Net profit attributable to the ordinary shareholders of the Group	6,848	17,576

	2019 Number (000)	2018 Number (000)
Weighted average number of shares used as the denominator.		
Weighted average number of ordinary shares (excluding treasury stock) used as the denominator in calculating basic earnings per share	120,532	110,000
Adjustments for calculation of diluted earnings per share:		
Executive Long-Term Incentive Plan share rights	19	-
Fair Share Plan	56	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	120,607	110,000

ACCOUNTING POLICIES:

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

10 DIVIDENDS

	2019 $000	2018 $000
Recognised amounts (pre initial public offering):		
Special dividend paid	43,957	-
Dividends paid	10,000	10,000
	53,957	**10,000**

ACCOUNTING POLICIES:

Provision is made for dividends when they have been approved by the Board of Directors on or before the end of the reporting period but not distributed at the end of the reporting period.

11 CAPITAL AND RESERVES

Share Capital

	2019 Number of Shares (000)	2019 Nominal Value $000	2018 Number of Shares (000)	2018 Nominal Value $000
Balance at 1 October	21,000	21,000	21,000	21,000
Business reorganisation	89,000	-	-	-
Issue of ordinary shares	90,000	234,000		
Treasury shares	(124)	(323)		
Fair Share plan	(472)	(1,228)	-	-
	199,404	253,449	21,000	21,000
Less: Transaction costs arising on issue of shares	-	(7,045)	-	-
Balance at 30 September	**199,404**	**246,404**	**21,000**	**21,000**

ACCOUNTING POLICIES:
All ordinary shares have no par value, equal voting rights and share equally in dividends and surplus on winding up. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Treasury Shares

	Note	2019 Number of Shares (000)	2019 Nominal Value $000	2018 Number of Shares (000)	2018 Nominal Value $000
Acquired in conjunction with initial public offering	21	124	323	-	-
Balance at 30 September		**124**	**323**	**-**	**-**

Fair Share Plan

	Note	2019 Number of Shares (000)	2019 Nominal Value $000	2018 Number of Shares (000)	2018 Nominal Value $000
Balance in conjunction with initial public offering	21	472	1,228	-	-
Balance at 30 September		**472**	**1,228**	**-**	**-**

The shares issued under the Fair Share Plan are held in Trust on behalf of employees until the employees' loans are satisfied in full. The Trust is a subsidiary of and consolidated in the financial statements of the Group.

Costs incurred in relation to equity raising

The Group has incurred total transaction costs of $13,449,000 during the year related to the initial public offering and listing of Napier Port Holdings Limited equity securities on the New Zealand Stock Exchange. Management have applied judgement to allocate these transaction costs between incremental costs that are directly attributable to issuing new shares and should be deducted from equity ($5,105,000), costs that relate to the share market listing or are otherwise not incremental and directly attributable to issuing new shares which should be recorded as an expense in the income statement ($4,749,000), and joint costs that relate to both share issuance and listing ($3,595,000). The joint costs were required to be allocated between equity and expense on a rational basis and Management have applied judgement in determining this allocation. These judgements resulted in incremental costs of $7,045,000 included in Share Capital within Equity and costs of $6,404,000 being expensed in the Income Statement.

ACCOUNTING POLICIES:

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of derivatives that are designated and qualify as cash flow hedge instruments, related to hedged transactions that have not yet occurred.

Revaluation reserve

The revaluation reserve relates to the revaluation of the port sea defences.

Share-based payment reserve

The employee equity reserve is used to record the value of share-based payments.

Treasury shares

The Group's own equity instruments, which are reacquired for later use in share-based payment arrangements, are deducted from share capital.

12 TRADE AND OTHER PAYABLES

	2019 $000	2018 $000
Trade payables	4,738	2,627
GST payable	169	598
Trade accruals	3,889	3,093
Employee entitlement accruals	3,675	3,051
	12,471	**9,369**

ACCOUNTING POLICIES:

Trade and other payables are initially recorded at fair value and subsequently at amortised cost using the effective interest method.

Liabilities for wages, salaries and performance payments, including annual leave, expected to be settled within 12 months of the reporting date are recognised in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

13 PROVISIONS FOR EMPLOYEE ENTITLEMENTS

	2019 $000	2018 $000
Balance at 1 October	417	371
Additional provision made	59	89
Amount utilised	(40)	(43)
Balance at 30 September - Non-current	**436**	**417**

ACCOUNTING POLICIES:

The liability for long service leave is recognised and measured at the present value of the expected future entitlements to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

14 LOANS AND BORROWINGS

The note below provides information about the contractual terms of the Group's interest bearing loans and borrowings:

2019	Maturity	Coupon	Committed Facilities NZ$000	Undrawn Facilities NZ$000	Capitalised Loan Costs NZ$000	Carrying Value NZ$000
Westpac New Zealand Limited facility	Jul-23	Floating	60,000	60,000	-	-
Industrial and Commercial Bank of China (New Zealand) Limited facility	Sep-24	Floating	80,000	80,000	-	-
Industrial and Commercial Bank of China (Asia) Limited facility	Sep-24	Floating	40,000	40,000	-	-
Total non-current			**180,000**	**180,000**	**-**	**-**

2018	Coupon	Committed Facilities NZ$000	Undrawn Facilities NZ$000	Capitalised Loan Costs NZ$000	Carrying Value NZ$000
Westpac New Zealand Limited facility	Floating	65,000	27,000	9	37,991
ASB Bank Limited facility	Floating	55,000	12,500	-	42,500
Total non-current		**120,000**	**39,500**	**9**	**80,491**

Following the completion of the Initial Public Offering in August 2019, the Group repaid its existing debt facilities with Westpac New Zealand Limited and ASB Bank Limited, and these facilities were closed.

The Group has entered into three new facilities which provide total available facilities of $180 million, to fund the completion of the 6 wharf expansion project and general corporate purposes. Establishment fees paid on the new facilities have been included as a prepayment within trade and other receivables until the facilities are drawn down.

The facility agreements require that certain covenants are met and will require the Group to maintain or better specified Debt Coverage, Interest Coverage, Equity and Group Coverage ratios.

Security for the facilities with the banks is by way of negative pledge over the assets of the Group in respect of both the sale of assets and other security interests.

ACCOUNTING POLICIES:

On initial recognition all borrowings are recognised at the fair value of consideration received less directly attributed transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities are amortised over the term of the loan.

15 TRADE AND OTHER RECEIVABLES

	2019 $000	2018 $000
Trade receivables	8,620	9,223
Prepayments	4,577	2,968
	13,197	**12,191**

The aging of trade receivables at reporting dates is set out below:

	2019 $000	2018 $000
Not past due	7,378	7,434
Past due 0 - 30 days	1,088	1,292
Past due 30 - 60 days	111	351
Past due > 60 days	43	146
	8,620	**9,223**

ACCOUNTING POLICIES:
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any lifetime expected credit losses.

16 INTANGIBLE ASSETS

Computer software

	2019 $000	2018 $000
Cost		
Opening balance at 1 October	6,606	6,330
Additions	272	276
Closing balance at 30 September	**6,878**	**6,606**
Accumulated amortisation		
Opening balance at 1 October	5,270	4,677
Amortisation for the period	498	593
Closing balance at 30 September	**5,768**	**5,270**
Closing net book value at 30 September	**1,110**	**1,336**

ACCOUNTING POLICIES:
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of between 3 to 10 years.

17 PROPERTY, PLANT AND EQUIPMENT

	Port Land	Sea Defences	Site Improvements	Wharves & Jetties	Buildings	Plant & Equipment	Dredging	Work in Progress	Total
Cost or fair value									
At 1 October 2018	38,655	87,998	61,754	46,650	28,655	115,458	16,696	6,426	402,292
Additions	-	-	-	-	-	-	-	18,542	18,542
Additions - Leases	-	-	-	-	-	1,123	-	-	1,123
Disposals	-	-	(19)	-	-	(584)	-	-	(603)
Transfers	-	122	1,880	778	93	3,648	16	(6,809)	(272)
At 30 September 2019	**38,655**	**88,120**	**63,615**	**47,428**	**28,748**	**119,645**	**16,712**	**18,159**	**421,082**
Accumulated depreciation and impairment									
At 1 October 2018	-	409	22,267	9,260	10,544	44,327	5,873	-	92,680
Depreciation	-	348	1,844	625	702	7,207	757	-	11,483
Impairment	-	-	-	-	190	-	-	-	190
Disposals	-	-	-	-	-	(456)	-	-	(456)
At 30 September 2019	**-**	**757**	**24,111**	**9,885**	**11,436**	**51,078**	**6,630**	**-**	**103,897**
Closing net book value 2019	**38,655**	**87,363**	**39,504**	**37,543**	**17,312**	**68,567**	**10,082**	**18,159**	**317,185**
Cost or fair value									
At 1 October 2017	38,655	87,711	58,896	45,190	28,228	102,795	14,891	13,178	389,544
Additions	-	-	-	-	-	-	-	13,159	13,159
Disposals	-	-	-	-	-	(693)	558	-	(135)
Transfers	-	287	2,858	1,460	427	13,356	1,247	(19,911)	(276)
At 30 September 2018	**38,655**	**87,998**	**61,754**	**46,650**	**28,655**	**115,458**	**16,696**	**6,426**	**402,292**
Accumulated depreciation and impairment									
At 1 October 2017	-	-	20,525	8,660	9,846	38,757	4,567	-	82,355
Depreciation	-	409	1,742	600	698	6,057	750	-	10,256
Impairment	-	-	-	-	-	135	-	-	135
Transfers/ Disposals	-	-	-	-	-	(622)	556	-	(66)
At 30 September 2018	**-**	**409**	**22,267**	**9,260**	**10,544**	**44,327**	**5,873**	**-**	**92,680**
Closing net book value 2018	**38,655**	**87,589**	**39,487**	**37,390**	**18,111**	**71,131**	**10,823**	**6,426**	**309,612**

Plant and Equipment includes right-of-use assets relating to leased plant and equipment.

Sea defences were revalued to fair value as at 30 June 2017 by AECOM New Zealand Ltd and the revalued amounts included in the statement of financial position as at 30 September 2017. The valuation has been prepared on an optimised depreciated replacement cost basis and in accordance with the NZ Infrastructure Asset Valuation and Depreciation Guidelines published by the NAMS group of IPWEA.

SIGNIFICANT ESTIMATES – VALUATION OF SEA DEFENCES

The valuation of sea defences is subject to assumptions and judgements which materially affect the resulting valuation. Such factors include replacement quantities and unit values, the condition and performance of assets, estimated total and remaining effective lives of 70 to 156 years and 5 to 62 years, respectively, and estimated residual values of 20% of replacement cost. Other inputs incorporated into the valuation process include Statistics NZ Indices and an allowance for project on-costs of 10-12%. An increase in the remaining useful life, the residual value assumption, or in replacement quantities and unit values for sea defence assets will result in an increase in the valuation and vice versa.

During the year, management have reassessed the residual values applied to floating plant, such that residual values are now estimated to be 5-10% of cost compared to 5-50% in the comparative period. This resulted in an increase in depreciation expense during the period of $540,000.

The historical cost of the sea defence asset class is $4,696,000.

The fair value measurement has been categorised as a Level 3 fair value based on inputs which are not based on observable market data.

ACCOUNTING POLICIES:

Recognition and measurement of assets

Sea defences are measured at fair value, based on periodic valuations by suitably qualified and experienced professionals, less accumulated depreciation and impairment. Revaluations are performed with sufficient regularity to ensure that the carrying value does not differ materially from its fair value. Differences between the valuations and the preceding carrying values are taken to the revaluation reserve. If the net balance of a revaluation reserve was to become a debit this would be charged to the income statement.

All other property, plant and equipment assets are accounted for at historical cost less accumulated depreciation and impairment. This is the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Group includes the cost of all materials used in construction, associated borrowing costs, direct labour on the project and an appropriate amount of directly attributable costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group. All other costs are recognised in the income statement as an expense as incurred.

Work in progress are costs incurred in the course of bringing assets to the location and condition necessary for their intended service and includes costs of obtaining resource consents where required to proceed with capital projects.

Depreciation

Depreciation is provided on all tangible property, plant and equipment other than freehold land and capital dredging, at rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives.

The following main classes of property, plant and equipment are depreciated on a straight-line basis and their estimated useful lives are:

	Years		Years
Site Improvements	10-50	Wharves and Jetties	10-80
Vehicles, Plant and Equipment	3-25	Buildings	10-60
Floating Plant	30	Sea Defences	100-200
Maintenance Dredging	8		

Depreciation on crane assets is calculated on a unit-of-production basis with estimated useful lives of 33,000-36,000 operating hours.

Land and capital dredging are not depreciated as they are considered to have indefinite useful lives.

The residual values and useful economic lives adopted for depreciation purposes are key assumptions in determining depreciation of sea defences.

Impairment

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

18 INVESTMENT PROPERTIES

	2019 $000	2018 $000
Balance at 1 October	7,970	7,285
Gain from fair value adjustments	230	685
Balance at 30 September	**8,200**	**7,970**

Investment properties were externally valued at 30 September 2019 by a registered valuer with relevant experience of the property type and location.

The fair value has been determined by the valuer using a market approach based on comparable property sales within the area. The fair value measurement has been categorised as a Level 3 fair value based on inputs which are not based on observable market data.

19 INVESTMENT IN JOINT VENTURE

The Group has 33.33% interest in Longburn Intermodal Freight Hub Limited which was set up as a joint venture to develop a facility at Longburn near Palmerston North to provide container storage and logistics solutions.

Investment in joint venture

	2019 $000	2018 $000
Balance at 1 October	850	834
Additions	230	110
Share of recognised revenues and expenditure	(228)	(19)
Provision for impairment	(852)	(75)
Balance at 30 September	**-**	**850**

Summarised unaudited financial information of joint venture:

	2019	2018
Assets	2,913	3,453
Liabilities	(358)	(281)
Net assets 100%	**2,555**	**3,172**
Group's share (33.33%)	852	1,057
Provision	(852)	(207)
Balance at 30 September	**-**	**850**
Revenues	(74)	226
Net loss after tax	(683)	(58)
Group's share of net loss (33.33%)	**(228)**	**(19)**

During the year the Group's investment in Longburn Intermodal Freight Hub Limited was tested for impairment and as a result fully impaired. For impairment testing cashflows were projected using management forecasts over a five year period, terminal cash flows were estimated using a constant revenue growth rate of 10% after year five and a pre-tax discount rate of 15% was used.

ACCOUNTING POLICIES:

The Group accounts for its joint venture interest in the financial statements using the equity method which requires the initial investment to be recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of the net assets of the investee.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Investments in joint ventures are assessed for impairment where there is objective evidence of impairment as a result of one or more events that will impact on the estimated cash flows from the net investment and these can be reliably estimated.

20 LEASES

AS LESSEE

	2019 $000
Right-of-use assets – plant and equipment	
Balance at 1 October	1,123
Depreciation	(213)
Balance at 30 September	**910**
Lease liabilities	
Balance at 1 October	1,123
Interest expense	61
Lease payments - cash	(250)
Balance at 30 September	**934**
Lease liabilities	
Current	200
Non-current	734
	934

The Group leases plant and equipment for port operations typically for fixed periods of 5 to 7 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

ACCOUNTING POLICIES:
The Group recognises a right-of-use asset and a lease liability at the commencement date of a lease except for short-term operating leases, where the lease term is less than 12 months, or related to low value assets, which are expensed on a straight-line basis over the term of the lease.

On initial recognition lease liabilities are recognised at the net present value of the lease payments discounted using the interest rate implicit in the lease. Lease liabilities are subsequently measured at amortised cost.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability. Right-of-use assets are included within property, plant and equipment in the statement of financial position and are subsequently measured on the same basis.

AS LESSOR

The Group leases land and buildings to port users for terms of 1-30 years. The Group manages the risk associated with leased land and buildings by having formal contracts which include obligations on tenants to observe relevant laws, regulations, port operating requirements, and the right to conduct contaminant testing and require reinstatement to agreed standards.

At balance date the following operating lease payments were receivable by the Group:

	2019 $000	2018 $000
Receivable within one year	1,660	1,902
Between one and two years	1,309	1,322
Between two and five years	3,919	3,927
Over five years	8,806	10,107
	15,694	**17,258**

ACCOUNTING POLICIES:
Lease income from operating leases is recognised as income on a straight-line basis over the term of the lease.

21 SHARE-BASED PAYMENTS

FAIR SHARE PLAN

At the time of the initial public offering employees of the Group were offered an interest-free limited recourse loan to purchase up to $5,000 worth of ordinary shares at the price that the shares initially listed on the NZX. The shares are held in Trust on behalf of the employees until the employee's loans are settled in full. The employee loans are repayable on the earlier of the 10th anniversary of Napier Port Holdings Limited listing on the NZX, the date an employee ceases employment with the Group, or when an employee repays their loan balance. Any dividends paid by the Group while the employee loans are outstanding are credited against the employees' loan balance. If at the time employees are required to repay their loans the shares are worth less than the loan, the employees are not required to repay the loan balance but they will forfeit their shares.

As the conditions of the Fair Share plan give the employee the right, but not necessarily the obligation, to subscribe to shares the arrangement is considered for accounting purposes, an in-substance share option plan, and is accounted for under NZ IFRS 2 Share-Based Payments. Because the employees can leave at any time and repay their loans, or early repay their loans at any time, and take legal ownership of their shares, there is no vesting period and the full amount of the fair value of the award has been recognised at the grant date and there will be no further adjustment.

The fair value of the options at the grant date was determined using the Black Scholes option pricing model, taking into account the terms and conditions under which the options were granted. The following tables lists the inputs used at the time the options were granted.

	Black Scholes Option Pricing Model 2019
Exercise price	$2.60
Dividend yield	2.32%
Expected volatility	18.7%
Risk free interest rate	0.86% - 1.92%
Expected life of the options	9.1 years

472,288 shares were granted under the Fair Share plan with an option fair value of $0.68 per share. During the year ended 30 September 2019 an expense of $321,000 has been recognised in the Consolidated Income Statement in respect of the Fair Share plan.

EXECUTIVE LONG-TERM INCENTIVE (LTI) PLAN

In August 2019, the Group introduced an equity-settled LTI plan. Under this LTI plan, share rights are issued to participating executives and these have a two or three year vesting period. The vesting of share rights entitle the executive to the receipt of one Napier Port Holdings Limited ordinary share per share right at nil cost, plus additional shares to the value of any dividends which would have been paid on the underlying shares during the vesting period. Vesting is subject to the executive remaining employed by the Group during the vesting period, the achievement of certain EBITDA targets over the prospective financial information period (2 years), and total shareholder return (TSR) hurdles over the vesting period.

The proportion of share rights that vests depends on the Group's TSR performance ranking relative to the NZX50 index.

To the extent that performance hurdles are not met or executives leave employment of the Group prior to vesting, the share rights are forfeited.

Number of Share Rights Issued:

Grant Date	Vesting Date	Balance at 30 September 2018	Granted During the Year	Balance at 30 September 2019
19-Aug-19	19-Aug-22	-	162,689	162,689
Total LTI Plan		**-**	**162,689**	**162,689**

Share rights are valued as zero cost in-substance options at the date at which they are granted, using the Monte Carlo Option Pricing model. The following table lists the key inputs into the valuation:

	Monte Carlo Option Pricing Model 2019
Grant Date	19-Aug-19
Vesting Date	19-Aug-22
Grant Date Share Price	$2.60
Risk Free Interest rate	0.94%
Expected Dividends	$0.26
Valuation per Share Right	$1.26

The weighted average remaining contractual life of the options at 30 September 2019 is 2.83 years.

During the year ended 30 September 2019, an expense of $12,000 has been recognised in respect of the LTI plan in the Consolidated Income Statement.

ACCOUNTING POLICIES:
The cost of share-based payment transactions are spread over the period in which the employees provide services and become entitled to the awards.

The cost of the equity-settled share-based transactions are measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity settled transactions is recognised in the income statement, together with a corresponding increase in the share-based payment reserve in equity.

22 RELATED PARTY TRANSACTIONS

Transactions with owners		2019 $000	2018 $000
Related Party	*Nature of Transactions*	*Value of Transactions*	
Hawke's Bay Regional Council	Rates, levies and consents	158	39
	Council Services	3	6
	Subvention payment	32	144
	Consultancy contribution	214	-
	Lease Income	(12)	(12)
Hawke's Bay Regional Investment Company	Return of capital pre IPO (including dividends)	117,857	10,000
	Subvention payment	5,708	177
	Council services	207	-
	Transaction costs reimbursed	3,710	50

Following the completion of the Initial Public Offering, Hawke's Bay Regional Investment Company Limited owns 55% of the ordinary shares of Napier Port Holdings Limited (previously 100%). Hawke's Bay Regional Investment Company Limited is wholly owned by Hawke's Bay Regional Council, which is the ultimate controlling party of the Group. Immediately prior to the IPO Port of Napier Limited (PONL) paid a fully imputed dividend to HBRIC of $44.0 million and Napier Port Holdings Limited paid cash proceeds for the purchase of PONL shares to HBRIC of $63.9 million as a return of capital.

The amounts owing to related parties are paid in accordance with the Group's normal commercial terms of trade.

Certain directors of the Group are also directors of other companies with whom the Group transacts. All such transactions are on normal commercial terms.

Key management compensation

Compensation of directors and executives, being the key management personnel is as follows:

	2019 $000	2018 $000
Short-term employee benefits	3,233	2,720
Termination benefits	-	260
Share-based payments	24	-
	3,257	**2,980**

23 COMMITMENTS & CONTINGENCIES

CAPITAL EXPENDITURE COMMITMENTS
At balance date there were commitments in respect of contracts for plant capital expenditure totalling $6,335,000 (2018: $1,514,000).

CONTINGENT LIABILITIES
There were no material contingent liabilities at balance date (2018: $Nil).

FINANCIAL GUARANTEES

The Group has financial performance guarantees in place, the maximum callable under the guarantees as at 30 September 2019 was $108,000.

24 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, foreign currency risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

CREDIT RISK

In the normal course of its business the Group incurs credit risk from accounts receivable, bank balances and interest rate swap agreements.

There is no significant concentration of credit risk and the Group has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers. Counterparties to cash and derivative financial assets are major banks, approved by the Directors. The Group's maximum credit risk exposure are as disclosed in the statement of financial position and collateral or other security is not held.

The Group has trade receivables as financial assets that are subject to the expected credit loss model under NZ IFRS 9. For trade receivables the Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash and borrowing facilities available to meet its liabilities when due, under both normal and adverse conditions. The Group's cash flow requirements and the utilisation of borrowing facilities are continuously monitored.

The following table sets out the contractual cash flows for all financial liabilities:

Contractual maturity analysis

	Carrying Amount $000	Cash flows to Maturity $000	Less than 1 Year $000	1 - 2 Years $000	2 - 5 Years $000	More than 5 Years $000
2019						
Trade payables	4,738	4,738	4,738	-	-	-
Lease liabilities	934	1,225	288	288	649	-
Forward exchange contracts	(200)	4,598	4,598	-	-	-
	5,472	**10,561**	**9,624**	**288**	**649**	**-**
2018						
Bank overdraft	109	109	109	-	-	-
Trade payables	2,627	2,627	2,627	-	-	-
Loans and borrowings	80,491	84,904	2,351	43,717	38,836	-
Interest rate swaps	5,323	5,323	221	1,113	1,754	2,235
Forward exchange contracts	(13)	454	454	-	-	-
	88,537	**93,417**	**5,762**	**44,830**	**40,590**	**2,235**

	2019 $000	2018 $000
At balance date the Group had bank facilities of:		
Overdraft	1,000	1,000
Credit facilities	180,000	120,000
Total	**181,000**	**121,000**
At balance date the utilisation of bank facilities was:		
Overdraft	-	109
Credit facilities	-	80,500
Total	**-**	**80,609**

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

ACCOUNTING POLICIES:

Derivative financial instruments

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments.

(ii) Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

Forward contracts

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

Interest rate swaps

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms are matched, the economic relationship are considered to be 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

(iii) Measurement of derivatives

Forward exchange contracts and options and interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at balance date. The fair value of interest rate swaps is determined by reference to market values for similar instruments. The fair value of forward exchange contracts and options is determined by reference to current forward exchange rates for contracts with similar maturity profiles.

(i) Interest rate risk

The Group utilises interest rate caps and swaps to manage interest rate exposures for future periods. The Group's main interest rate risk arises from loans and borrowings with variable rates, which expose the Group to cash flow interest rate risk. Generally, the Group enters into long-term borrowings at floating rates and swaps them into fixed rates. The Group's treasury policy defines the use of approved hedging instruments to manage interest rate exposures within minimum and maximum bands of fixed interest rate cover.

Instruments used by the Group:

There were no interest rate swap agreements in place at 30 September 2019.

Effects of hedge accounting on the financial position and performance:

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

Interest rate swaps	**2019 $000**	**2018 $000**
Notional principal amounts (including forward starting swaps) and the expiry period of the contracts are as follows:		
Less than 1 year	-	20,000
1 - 2 years	-	20,000
2 - 3 years	-	2,000
Greater than 3 years	-	62,500
Total	**-**	**104,500**
Carrying amount (liability)	-	5,323
Hedge ratio	-	1:1
Change in fair value of outstanding hedging instruments since 1 October	-	(391)
Change in value of hedged item used to determine hedge effectiveness	-	391
Weighted average hedged rate for the year	-	4.8%

Sensitivity:

At the reporting date, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would increase/(decrease) profit or loss and other comprehensive income by the amounts shown below.

	Profit or Loss		**Other Comprehensive Income**	
	100bp Increase $000	**100bp Decrease $000**	**100bp Increase $000**	**100bp Decrease $000**
Cash and cash equivalents	312	(312)	-	-
30 September 2019	**312**	**(312)**	**-**	**-**
Variable rate loans	(805)	805	-	-
Interest rate swaps	545	(545)	2,323	(2,193)
30 September 2018	**(260)**	**260**	**2,323**	**(2,193)**

(ii) Foreign exchange rate risk

The Group undertakes transactions denominated in foreign currencies from time to time and exposure in foreign currencies arises from these activities. The Group's exposure to foreign currency risk at the end of the reporting period, expressed in New Zealand Dollars and the contracted terms were as follows:

Foreign exchange contracts	**NZD Amount $000**	**Currency Amount $000**
2019		
EUR	4,598	2,755
2018		
USD	454	309

Instruments used by the Group:

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the New Zealand Dollar. The risk is measured through a forecast of highly probable foreign currency expenditures and hedged with the objective of minimising the volatility of the New Zealand Dollar cost of foreign currency purchases.

It is the Group's policy to hedge foreign currency risks above a certain value threshold as they arise and use forward foreign exchange contracts to manage these exposures.

Foreign currency forwards	2019 $000	2018 $000
Carrying amount (asset)	200	13
Notional amount	2,755	309
Maturity date	Oct - Nov 19	30-Nov-18
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness	(200)	(13)
Weighted average hedged rate for the year (including forward points)	EUR 0.59:NZD 1	USD 0.68:NZD 1

Sensitivity:

At the reporting date, a 10% strengthening or weakening of the New Zealand dollar against the relevant foreign currencies with all other variables held constant, would increase/(decrease) profit or loss and other comprehensive income by the amounts shown below.

	Profit or Loss		Other Comprehensive Income	
	10% NZD Increase $000	10% NZD Decrease $000	10% NZD Increase $000	10% NZD Decrease $000
30 September 2019	**-**	**-**	**(436)**	**533**
30 September 2018	**-**	**-**	**(30)**	**64**

FAIR VALUES

Fair value hierarchy

	2019 $000	2018 $000
Financial assets at amortised cost		
Cash and cash equivalents	31,224	-
Trade receivables	8,620	9,223
Total financial assets	**39,844**	**9,223**
Financial liabilities/(assets) at fair value		
Interest rate swaps	-	5,323
Forward foreign exchange contracts	(200)	(13)
	(200)	**5,310**
Financial liabilities at amortised cost		
Overdraft	-	109
Trade payables	4,738	2,627
Loans and borrowings	-	80,491
Lease liabilities	934	-
	5,672	**83,227**
Total financial liabilities	**5,472**	**88,537**

The carrying value of all financial assets and liabilities approximates their fair value.

Estimation of the fair value of financial instruments

The fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments recognised on the Group's statement of financial position at fair value sit within Level 2.

Capital management

The Board's policy is to maintain a strong capital base, which the Group defines as total shareholder's equity, so as to maintain shareholder and banker confidence and to sustain the future development of the Group. The Group has established policies in capital management, including specific requirements relating to minimum interest cover, minimum debt to debt plus equity, and minimum total committed funding to maximum debt over the next 12 months.

The facility agreements require that certain covenants are met and will require the Group to maintain or better specified Debt Coverage, Interest Coverage, Equity and Group Coverage ratios.

25 ALTERNATIVE NON-NZ GAAP PERFORMANCE MEASURE

The result from operating activities reported on the face of the consolidated income statement is a non-NZ GAAP measure that is not required by nor defined by relevant reporting standards. The Group considers this metric useful as it provides the result from core operating activites for comparison from period to period.

The result from operating activities is intended to be calculated as operating income less operating expenses. The measure excludes income and expenses related to the depreciation, amortisation, impairment and retirement of operating and other assets, income and expenses arising from fair value changes, non-recurring and abnormal, joint-venture and other investment activity.

The result from operating activities measure includes certain non-cash income and expenses related to core operating activities such as accrued income and expenses and share-based payments.

26 COMPARISON TO PROSPECTIVE FINANCIAL STATEMENTS

26.1 PROSPECTIVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NZ$000	2019 Actual	2019 Forecast
Revenue from Port Operations	97,536	95,410
Property Operations	2,080	1,948
Revenue	**99,616**	**97,358**
Employee benefit expenses	29,454	28,401
Maintenance expenses	9,073	8,810
Other operating expenses	19,102	26,185
Operating expenses	**57,629**	**63,396**
Results from operating activities	**41,987**	**33,961**
Depreciation, amortisation and impairment expenses	12,171	11,680
Other (income) and expenses	(135)	(25)
IPO transaction and related costs	6,404	-
Share of loss and impairment of joint venture	1,080	1,119
Profit before finance costs and tax	**22,467**	**21,187**
Finance income	(136)	(139)
Finance expenses	10,573	10,575
Net finance costs	**10,437**	**10,436**
Profit before income tax	**12,030**	**10,751**
Income tax expense	5,182	5,157
Profit for the period attributable to the shareholders of the Company	**6,848**	**5,594**
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes in fair value of cash flow hedges	(2,835)	(2,095)
Cash flow hedges transferred to profit or loss	8,345	7,405
Deferred tax on changes in fair value of cash flow hedges	(1,543)	(1,487)
Items that will not be reclassified to profit or loss:		
Deferred tax on revaluation of sea defences	4,374	4,374
Total comprehensive income	**15,189**	**13,791**

Commentary:

Revenue for the year ended 30 September 2019 is $2.3 million higher than forecast principally due to higher than forecast container and bulk cargo volumes and related income. Total container TEU volumes of 271,000 and bulk cargo total volume of 3,404,000 tonnes were both respectively 1% higher than forecasts for the year.

Employee benefit expenses were $1.1 million higher than forecast due to higher holiday pay accruals and reclassifying employee-related listing costs (including share-based payments) into Employee benefit expenses from Other operating expenses in the forecast. Other operating expenses were $7.1m less than forecast as IPO transaction and related costs (forecast of $7.3 million) have been reclassified and disclosed separately outside of Other operating expenses. Actual IPO transaction and related costs of $6.4 million were $0.9 million less than forecast due to the lower portion of total IPO costs related to the share market listing or not incremental and directly attributable to issuing new shares.

Income tax expense is in-line with forecast as the profit before income tax increase of $1.3 million compared to forecast includes $0.9 million less IPO transaction costs that are non-deductible for tax purposes.

Within other comprehensive income changes in fair value of cash flow hedges and cash flow hedges transferred to profit or loss were higher by $0.7 million and $0.9 million, respectively, due to market movements after the forecast and resulting higher swap settlement costs than forecast.

26.2 PROSPECTIVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NZ$000 Forecast	Share Capital	Revaluation Reserves	Hedging Reserve	Reorganisation Reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
Balance at 1 October 2018	**21,000**	**71,077**	**(3,823)**	**-**	**-**	**124,158**	**212,412**
Profit for the period	-	-	-	-	-	5,594	5,594
Changes in fair value of cash flow hedges, net of deferred tax	-	-	3,823	-	-	-	3,823
Deferred tax on sea defences	-	4,374	-	-	-	-	4,374
Total comprehensive income	**-**	**4,374**	**3,823**	**-**	**-**	**5,594**	**13,791**
Business reorganisation	(21,000)	-	-	(221,362)	-	(74,799)	(317,161)
Costs capitalised to equity	(5,561)	-	-	-	-	-	(5,561)
Contributions from shareholders	487,001	-	-	-	-	-	487,001
Purchase of shares for employee share ownership plans	(1,686)	-	-	-	-	-	(1,686)
Share based payments	-	-	-	-	448	-	448
Pre IPO dividends	-	-	-	-	-	(53,958)	(53,958)
Total transactions with the owner in their capacity as owners	**458,754**	**-**	**-**	**(221,362)**	**448**	**(128,757)**	**109,083**
Total movement in equity	**458,754**	**4,374**	**3,823**	**(221,362)**	**448**	**(123,163)**	**122,874**
Balance at 30 September 2019	**479,754**	**75,451**	**-**	**(221,362)**	**448**	**995**	**335,286**

NZ$000 Actual	Share Capital	Revaluation Reserves	Hedging Reserve	Reorganisation Reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
Balance at 1 October 2018	**21,000**	**71,077**	**(3,823)**	**-**	**-**	**124,158**	**212,412**
Profit for the period	-	-	-	-	-	6,848	6,848
Other comprehensive income	-	4,374	3,967	-	-	-	8,341
Total comprehensive income	**-**	**4,374**	**3,967**	**-**	**-**	**6,848**	**15,189**
Business reorganisation	-	-	-	-	-	(63,900)	(63,900)
Costs capitalised to equity	(7,045)	-	-	-	-	-	(7,045)
Contributions from shareholders	234,000	-	-	-	-	-	234,000
Purchase of shares for employee share ownership plans	(1,551)	-	-	-	-	-	(1,551)
Share based payments	-	-	-	-	333	-	333
Pre IPO dividends	-	-	-	-	-	(53,957)	(53,957)
Total transactions with the owner in their capacity as owners	**225,404**	**-**	**-**	**-**	**333**	**(117,857)**	**107,880**
Total movement in equity	**225,404**	**4,374**	**3,967**	**-**	**333**	**(111,009)**	**123,069**
Balance at 30 September 2019	**246,404**	**75,451**	**144**	**-**	**333**	**13,149**	**335,481**

Commentary:

Overall Total Equity is in line with the forecast. Compared to the forecast, there has been a different presentation of the common control transaction within Equity. The Share Capital movement now includes the proceeds from the issue of 90,000,000 shares at the IPO issue price. No Reorganisation Reserve has been created. This results in in Share Capital lower than forecast ($233.4 million), offset by no Reorganisation Reserve ($221.4 million) and higher Retained Earnings ($12.2 million).

26.3 PROSPECTIVE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NZ$000	2019 Actual	2019 Forecast
EQUITY		
Share Capital	246,404	479,754
Reserves	75,928	(145,464)
Retained Earnings	13,149	997
Total equity	**335,481**	**335,288**
NON-CURRENT LIABILITIES		
Loans and borrowings	-	-
Deferred tax liability	18,436	18,554
Lease liability	734	734
Provisions for employee entitlements	436	474
Total non-current liabilities	**19,606**	**19,762**
CURRENT LIABILITIES		
Taxation payable	3,358	3,162
Lease liability	200	200
Trade and other payables	12,471	12,368
Total current liabilities	**16,029**	**15,731**
TOTAL LIABILITIES AND EQUITY	**371,116**	**370,781**
NON-CURRENT ASSETS		
Property, plant and equipment	317,185	326,305
Intangible assets	1,110	1,555
Investment properties	8,200	7,970
Total non-current assets	**326,495**	**335,830**
CURRENT ASSETS		
Cash and cash equivalents	31,224	20,069
Derivative financial instruments	200	-
Trade and other receivables	13,197	14,882
Total current assets	**44,621**	**34,951**
TOTAL ASSETS	**371,116**	**370,781**

Commentary:

Property, plant and equipment is $9.1 million lower than forecast due to the timing of capital expenditure compared to the forecast assumptions. Trade and other receivables are $1.7 million lower than forecast due to the timing of revenue and collections. The combination of these principally result in the cash and cash equivalents balance being $11.2 million higher than forecast.

26.4 PROSPECTIVE CONSOLIDATED STATEMENT OF CASH FLOWS

NZ$000	2019 Actual	2019 Forecast
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	99,132	95,952
Cash was applied to:		
Payments to suppliers & employees	(56,028)	(55,975)
IPO and related costs	(5,643)	(7,339)
Net finance costs paid	(3,287)	(4,020)
Taxes Paid	(4,838)	(4,404)
Net cash flows from operating activities	**29,336**	**24,214**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Sale of assets	162	25
Cash was applied to:		
Investment in joint venture	(230)	(220)
Acquisition of other assets	(17,419)	(24,803)
Net cash flows used in investing activities	**(17,487)**	**(24,998)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Proceeds from loans and borrowings	-	14,412
Proceeds from issuance of ordinary shares	234,000	219,151
Cash was applied to:		
Repayment of loans and borrowings	(80,500)	(102,084)
Termination of interest rate swaps	(7,141)	-
Employee share ownership (ESOP) plans	(1,551)	(1,686)
Pre IPO dividends paid	(53,957)	(53,958)
Borrowing establishment costs	(632)	-
IPO proceeds transferred to HBRIC as part consideration for shares of PONL	(63,900)	(49,312)
Share issue costs	(6,646)	(5,561)
Repayment of lease liabilities	(189)	-
Net cash flows from financing activities	**19,484**	**20,962**
Net increase in cash balances	**31,333**	**20,178**
Cash and cash equivalents at beginning of year	(109)	(109)
Cash and cash equivalents at end of year	**31,224**	**20,069**

Commentary:
Cash inflows from operating activities are $5.1 million higher than forecast. This is due to higher receipts from customers, lower offer costs included within the income statement and lower interest payments. Lower interest payments are due to lower average loans and borrowings prior to the IPO.

Cash outflows used in investing activities are $7.5 million lower than forecast due to the timing of capital expenditure compared to forecast assumptions.

Cash inflows from financing activities are $1.5 million lower than forecast:

- Higher proceeds from issuance of ordinary shares due to the higher IPO issue price compared to the forecast assumption, offset by higher IPO proceeds paid to HBRIC as part of the consideration for shares of PONL.
- In the forecast the cash flows relating to the termination of interest rate swaps, borrowing establishment costs and repayment of lease liabilities were aggregated within net proceeds/ repayment of loans and borrowings. Considering these lines together cash outflows were $0.8 million higher than forecast due to the higher costs of terminating interest rate swaps.
- Cash outlflows for share offer costs were higher than forecast due to higher transaction costs included within equity.

27 EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance sheet date, a fully imputed dividend of $5 million (2.5 cents per share) was approved by the Board of Directors.

NAPIER PORT HOLDINGS LIMITED

TRADE AND FINANCIAL FIVE YEAR SUMMARY

	2019	2018	2017	2016	2015
Total Cargo (million tonnes)	5.46	5.09	4.75	3.92	4.07
Container Volumes (TEU)	271,221	266,006	288,444	257,380	256,438
Bulk Cargo (million tonnes)	3.40	3.07	2.51	2.03	2.18
Revenue ($m)	99.6	91.7	86.7	72.7	72.1
Result from Operating Activities* ($m)	42.0	38.9	37.4	30.4	29.7
Net Profit After Tax ($m)	6.8	17.6	16.7	11.5	12.9
Dividends ($m)	54.0	10.0	10.7	7.9	7.4
Capital Investment ($m)	17.6	15.7	18.7	10.3	35.1
Net Debt ($m)	-	80.6	83.3	79.2	84.3
Equity Ratio	0%	0%	0%	0%	0%
Debt Coverage Ratio	-	2.1	2.2	2.6	2.8
Interest Coverage Ratio	11.6	8.9	9.0	6.8	6.5
Return on Operating Assets %**	13.3%	12.6%	12.5%	10.5%	10.8%
Return on Shareholder's Funds %***	2.5%	8.4%	8.5%	6.1%	7.0%

Note: prior to 2019, data relates to Port of Napier Limited only

* *Profit from operating activities before interest, tax, depreciation, amortisation and impairments, other income & expenses, joint venture results, and IPO transaction costs.*

** *Result from operating activities divided by average non-current assets used in operations*

*** *Net profit after tax divided by average shareholders' funds.*

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Independent auditor's report
To the Shareholders of Napier Port Holdings Limited

The Auditor-General is the auditor of Napier Port Holdings Limited and its subsidiaries (the Group). The Auditor-General has appointed me, Simon Brotherton, using the staff and resources of Ernst & Young, to carry out the audit of the consolidated financial statements of the Group on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 65 to 97, that comprise the consolidated statement of financial position as at 30 September 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

Basis for our opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to the audit we have provided remuneration benchmarking and investigating accountant services to the Group, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Initial Public Offering ("IPO")

Why significant

On 15 July 2019, NPHL acquired 100% of the share capital of PONL from Hawke's Bay Regional Investment Company (HBRIC). Management considered this transaction to be outside the scope of NZ IFRS 3 Business Combinations, and applied pooling interests accounting, as explained in Note 3.

Subsequently, 45% of the share capital of NPHL was listed on the NZ Stock Exchange raising $234 million. From these proceeds, $111m was used to repay debt, to settle the associated interest rate swaps and for working capital requirements.

The Group incurred $13.4m of costs in relation to the IPO and related preparatory transactions. Those costs related to raising new equity ($7m) were deducted from equity, with the remainder treated as an expense. Management has used judgement in determining the value of costs allocated to both equity and expense.

In conjunction with the IPO, employees were offered an interest-free loan to purchase up to $5,000 of shares at the price at which the shares initially listed on the NZX (the "Fair Share" scheme). The Group also introduced an equity-settled Executive Long-Term Incentive (LTI) scheme. The accounting adopted for these share based payment arrangements is explained in Note 21.

How our audit addressed the key audit matter

Our audit procedures included the following:

- assessed management's consideration of whether the transaction is a common controlled transaction and therefore not within the scope of NZ IFRS 3 Business Combinations;
- assessed the application of the pooling of interests method to account for the transaction;
- evidenced the repayment of the bank loan, the settlement of the derivatives and considered the accounting treatment for removal of the associated hedging relationship;
- assessed the appropriateness of the allocation of IPO related costs between equity and expense;
- assessed whether the accounting treatment of the Fair Share and LTI scheme was in accordance with NZ IFRS 2 Share based Payments;
- involved our valuation specialists in the assessment of the assumptions and methodology used for the determination of the share based payments expense; and
- considered the adequacy of disclosures in relation to the matters above.

Revenue Recognition

Why significant

The Group generates revenue from port services.

The Group adopted NZ IFRS 15, Revenue from Contracts with Customers, in the year ended 30 September 2019. The Group's revised revenue recognition policy and other disclosures related to revenue are in Note 4 to the financial statements.

Revenue from services is recognised over time as the Group's performance obligations are met and the customer benefits from the services. Revenue is a key determinant of the Group's operating result, which has increased significance given the recent listing and scrutiny of the Group's results against its forecasts.

How our audit addressed the key audit matter

Our audit procedures included the following:

- assessed the Group's revenue recognition accounting policies and procedures against the requirements of NZ IFRS 15, including considering the Group's assessment that no adjustments were required on adoption of this standard;
- assessed the operating effectiveness of selected controls related to the recording of revenue;
- analysed the correlation between the Group's recorded revenue and movements in accounts receivable and cash using data analysis techniques;
- selected a sample of sales transactions recorded around period end and assessed whether they had been recorded in the correct period;
- assessed the adequacy of the Group's disclosures relating to revenue.

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Deferred Tax

Why significant	How our audit addressed the key audit matter
The Group's calculation of deferred tax is complex. It requires estimation of the residual value, being the non-depreciable portion, of some assets (sea defence assets for example) as well as an assessment of whether certain assets will be recovered through use or sale. As a result, some calculation inputs are subjective and require the use of judgement. The Group's disclosure in relation to this is included in Note 8.	Our audit procedures included the following: ▸ assessed the Group's judgements and estimates made in relation to key assumptions and inputs into the deferred tax calculation; ▸ involved our taxation specialists in the assessment of the appropriateness of the calculations based on the assumptions made; ▸ assessed the appropriateness of, and the accounting treatment of, the Group's revisions to the residual value of sea defence assets in the deferred tax calculation.

Other information

The Directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of shareholders taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Simon Brotherton
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand
18 November 2019

DIRECTORY

DIRECTORS

Alasdair MacLeod (Chairman)
Wendie Harvey
Stephen Moir
Diana Puketapu
John Harvey
Vincent Tremaine
Rick Barker
Blair O'Keeffe

SENIOR MANAGEMENT TEAM

Todd Dawson – Chief Executive
Kristen Lie – Chief Financial Officer
David Kriel – General Manager Commercial
Viv Bull – General Manager Culture and Community
Adam Harvey – General Manager Marine and Cargo
Andrea Manley – General Manager Strategy and Innovation
Warren Young – General Manager Container Operations
Michel de Vos – General Manager Infrastructure Services

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On behalf of the Auditor-General

SHARE REGISTRY

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Copies of the annual report are available at napierport.co.nz.

FINANCIAL CALENDAR

20 December 2019	Final dividend payment
20 December 2019	Annual meeting
31 March 2020	Half-year balance date
May 2020	Interim results announced
June 2020*	Interim dividend payment
30 September 2020	Financial year end
November 2020	Annual results announcement

* *Subject to board approval*

DOCUMENT ENVIRONMENTAL CREDENTIALS

Printed at Brebner Print (powered by Bluestar) a holder of gold certificate for Toitū Envirocare.

The paper stock used is Forest Stewardship Council® (FSC®) certified stock from responsible sources, using elemental chlorine-free (ECF) production processes. It is produced under the strict ISO14001 and EU EMAS environmental management systems, and carries the internationally recognised EU Flower eco label.


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