



NAPIER^o PORT

CONNECTING POTENTIAL

ANNUAL REPORT / 2018





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CONNECTING POTENTIAL

Napier Port is a pivotal link in a network that crosses the globe, connecting our local businesses, facilitating trade to world markets, and providing a gateway for tourists to explore our region.

We've been helping our customers, our community and our economy to grow for more than 100 years. Plenty has changed in that time, but our driving purpose remains the same.

Together, we build a thriving region by connecting you to the world.

OUR VISION

Our future is one forged side-by-side with our customers and our community. Together, we can drive growth and success that benefits our region, our people and our environment.

With key partners, Napier Port will grow a resilient, connected network of supply chain infrastructure that seamlessly delivers our customers' cargo to market.

In building our future, Napier Port will collaborate with like-minded organisations, creating a network of partners with shared aspirations. This network will empower the bold pursuit of ideas and opportunities, and enable our region to reach its full potential.

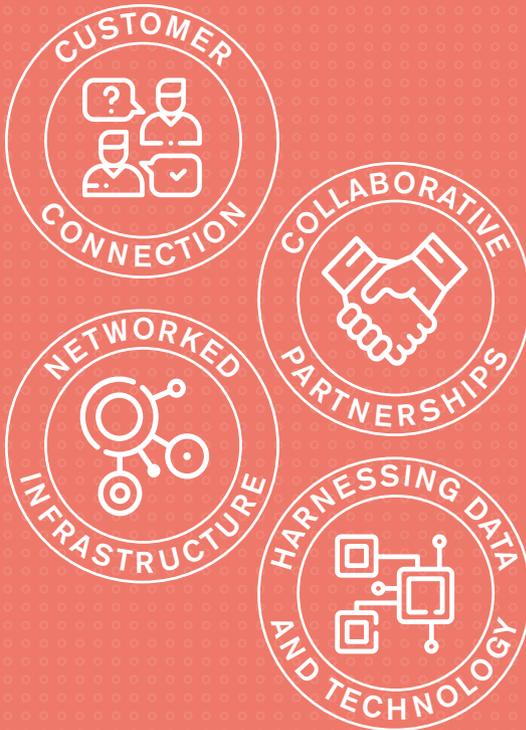
TOGETHER,
WE BUILD A
THRIVING REGION
BY CONNECTING
YOU TO THE
WORLD

OUR PEOPLE

Our success will be founded on a culture of care for our customers, our community and each other.

OUR FOCUS

At the heart of Napier Port's strategy are four key elements that will shape the course we chart toward achieving our vision.



OUR GOALS

Five high-level strategic goals support our focus areas and will guide strategic decisions and investment.



DEVELOP A RICH UNDERSTANDING OF OUR CUSTOMERS' BUSINESSES



COLLABORATE TO LOOK AFTER PEOPLE, PLANET AND PLACE TO ENSURE OUR BUSINESS AND COMMUNITY THRIVES



SUPPORT AN ADAPTABLE SUPPLY CHAIN WITH A RESILIENT INFRASTRUCTURE NETWORK



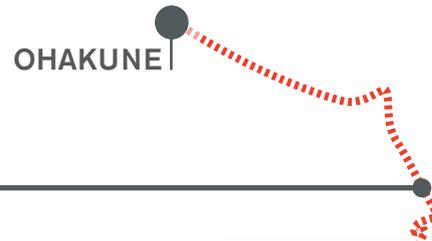
EVERY MEMBER OF OUR TEAM STRIVES TO IMPROVE CUSTOMER OUTCOMES



USE DATA AND TECHNOLOGY TO BUILD VALUE IN OUR BUSINESS, OUR CUSTOMERS' BUSINESSES, AND THROUGHOUT THE SUPPLY CHAIN

OUR NETWORK

From Central New Zealand to the world: Napier Port's network of infrastructure, freight solutions and shipping services connects our customers with every corner of the globe.



RAIL CONNECTIONS

- Over 40 trains per week into port
- Container service from Palmerston North via Takapau and Waipukurau
- Log service from Whanganui via Palmerston North and Woodville
- Pulp service from Ohakune

WHAKATU

- 12.4 hectares
- Ready for future development
- Road and rail connections
- In the centre of Hawke's Bay's future industrial heart

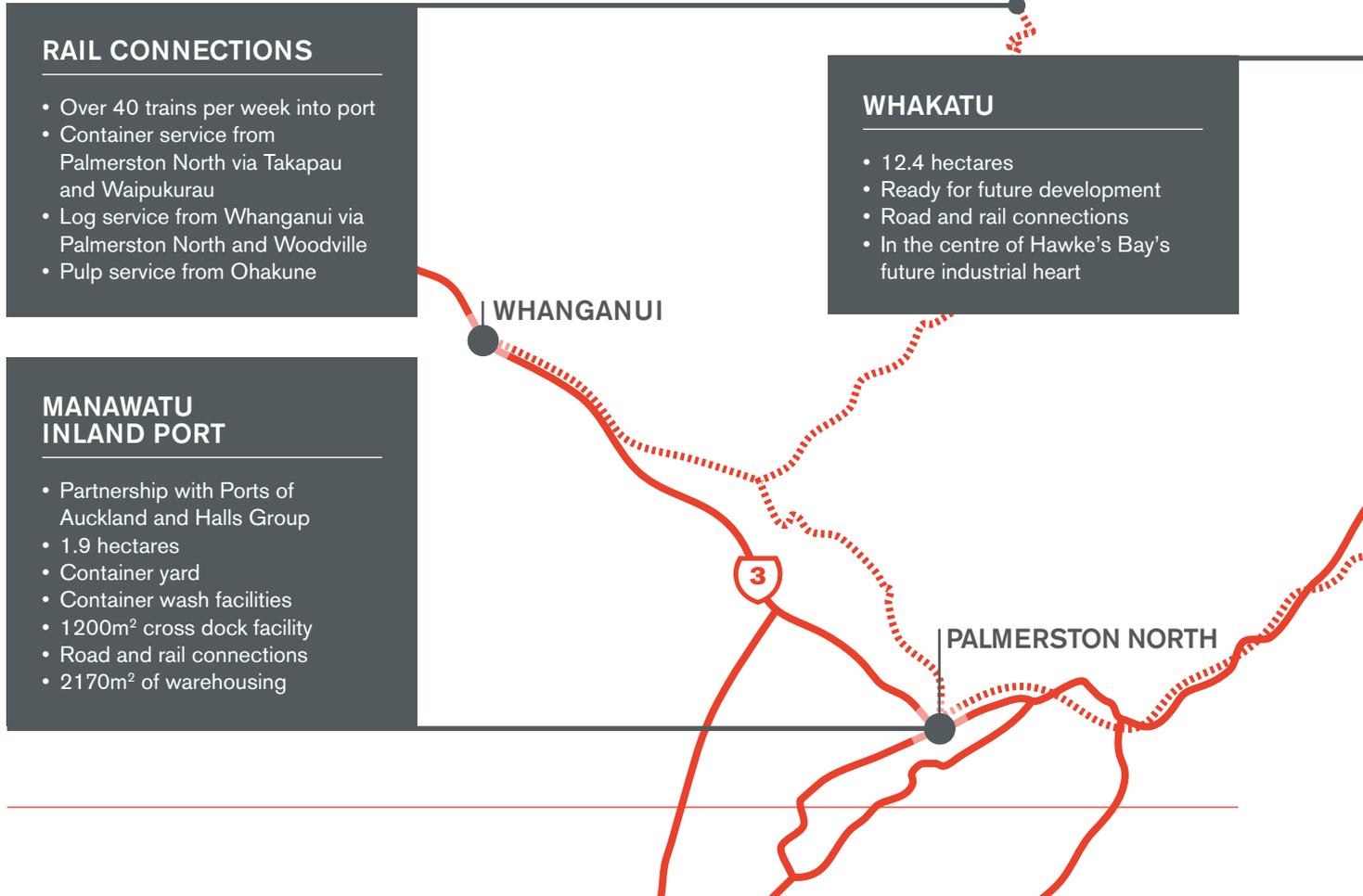
WHANGANUI

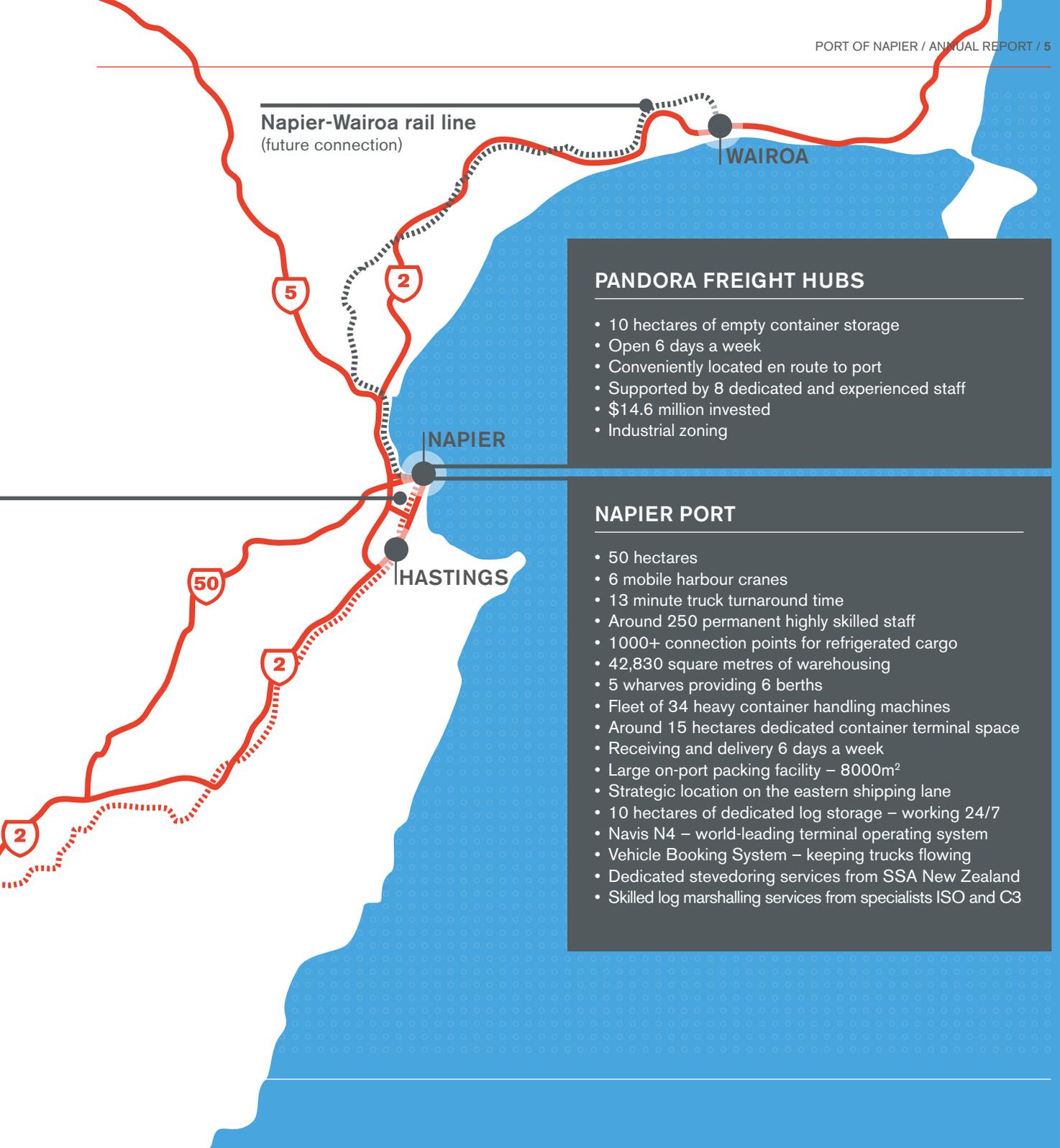
MANAWATU INLAND PORT

- Partnership with Ports of Auckland and Halls Group
- 1.9 hectares
- Container yard
- Container wash facilities
- 1200m² cross dock facility
- Road and rail connections
- 2170m² of warehousing

3

PALMERSTON NORTH





Napier-Wairoa rail line
(future connection)

WAIROA

PANDORA FREIGHT HUBS

- 10 hectares of empty container storage
- Open 6 days a week
- Conveniently located en route to port
- Supported by 8 dedicated and experienced staff
- \$14.6 million invested
- Industrial zoning

NAPIER

NAPIER PORT

- 50 hectares
- 6 mobile harbour cranes
- 13 minute truck turnaround time
- Around 250 permanent highly skilled staff
- 1000+ connection points for refrigerated cargo
- 42,830 square metres of warehousing
- 5 wharves providing 6 berths
- Fleet of 34 heavy container handling machines
- Around 15 hectares dedicated container terminal space
- Receiving and delivery 6 days a week
- Large on-port packing facility – 8000m²
- Strategic location on the eastern shipping lane
- 10 hectares of dedicated log storage – working 24/7
- Navis N4 – world-leading terminal operating system
- Vehicle Booking System – keeping trucks flowing
- Dedicated stevedoring services from SSA New Zealand
- Skilled log marshalling services from specialists ISO and C3

HASTINGS



CHAIRMAN'S REPORT

This has been a year of significant achievements at Napier Port. The volume that we shipped out of the region grew to record levels, and we dealt with it better than ever before. We did this by investing in additional capacity, but also through continuously improving practices and processes.

The fact that the volumes are projected to continue to grow for years to come is both an enormous opportunity and an enormous challenge for the board, for the port and for the region as a whole. As a board, we have come to the conclusion that our long-planned wharf expansion through the construction of a sixth wharf is now a matter of urgency if we are going to be able to deal with the increasing volumes produced within Hawke's Bay.

Clearly, funding the additional capital required for such a step change in our capacity is a challenge that

our owners are actively confronting. The need for large investments is one of the realities of owning and running an infrastructure business – but without the additional wharf, economic growth in Hawke's Bay would be curtailed to an unacceptable level.

STRONG RESULT

Napier Port delivered another strong financial result this year, recording a net profit of \$17.6 million and paying a \$10 million dividend to the Hawke's Bay Regional Investment Company.

While this represents a record financial result, it is very much tempered by the significant investments that lie ahead of us in future years, including the build of a new wharf and the associated investment in additional dredging, machinery, systems and people.

SAFETY FIRST

As a board, we are absolutely committed to ensuring that every person coming to Napier Port goes home safely. This requires a genuine understanding of the very real risks involved in working in a port environment. This year, every member of our board has experienced port operations at the coalface, providing invaluable insights into risk, safety protocols, and the crucial importance of looking out for each other.

GOVERNANCE

At the start of this year, Todd Dawson took the reins as Napier Port's new Chief Executive. He is relentlessly customer-focused, and has tackled our growth challenges with energy, insight

and acumen. He is determined to build on the strong foundations already in place to set the strategic direction that will carry Napier Port into the future.

This financial year we welcomed Diana Puketapu to the board. With a blend of governance experience across corporate, community, iwi and sporting organisations, Diana brings a valuable skillset to the board table and has proven a real asset.

It was with real regret that I accepted Stephen Bradford's resignation as a director this year. Stephen's depth of knowledge was second to none when it came to ports, and as a board we were sorry to lose such a wealth of expertise.

Chinthaka Abeywickrama also stepped down from the board after the close of the financial year. I've appreciated Chin's quiet, thoughtful input throughout his term and his specialist logistics knowledge has been of great value to the board. New directors will be appointed in the near future and in the interim, Todd Dawson and Chief Financial Officer Kristen Lie have stepped in as executive directors.

THANK YOU

Thank you to the board for their commitment, focus, intelligent challenge and support. Thank you to our customers for their business, and to the Napier Port team for their hard work. Napier Port – and our region more broadly – is at an important moment in its history and we are grateful to our owners and to our community for their support. We have the power to really unleash the potential of our region and we're excited to take big steps toward the future.



ALASDAIR MACLEOD
CHAIRMAN

CHIEF EXECUTIVE'S REPORT

It's been an exciting first year at the helm of Napier Port, connecting with our people, our customers, our partners and our community, and developing the strategy that will take us into the future.

I stepped into the Chief Executive role in January, and found an organisation in good heart: a dedicated team of experts, a strong culture and a plan for future growth. In meeting the passionate people across our operation, two things become immediately evident. The first is an absolute commitment to safety, felt deeply by our people at every level, and a unique culture founded in care for colleagues. The second is the immense pride our people have in working for Napier Port and the part it plays in supporting Hawke's Bay. It's a real privilege to lead an organisation with such a culture and it will stand us in good stead as we go forward.

It's been a watershed year for Napier Port, with major achievements right across the spectrum. Together with our customers, we celebrated handling five million tonnes of cargo – a huge milestone that our people, our customers and our region can be rightfully proud of. Our Port Pack team handled a record 51,126 containers

and we welcomed 103,000 cruise passengers to our shores, setting a new benchmark for our growing tourism sector. We achieved a record financial result, delivering a strong dividend to our owner and made further investments in our future capabilities.

These record results are reflective of a healthy regional economy. Hawke's Bay is growing in leaps and bounds – and it won't be stopping any time soon. Major export industries including forestry, horticulture and agriculture are forecast to see significant growth over the next decade. Our tourism industry is taking off, and our Manawatu inland hub is growing the volume of cargo coming from outside our traditional catchment.

To keep freight flowing and enable our region's growth, it's critical that we have the right network of infrastructure – road, rail, port, airport and freight hubs – in place and working together as a



connected whole. Napier Port invested in the resilience of our network this year, opening an additional offsite depot in Pandora, expanding our refrigerated container facilities, and strengthening our on-port infrastructure.

STRATEGIC REFRESH

This year has seen us thinking deeply about our role in the economy, our purpose as an organisation, and the most effective strategy for building a prosperous future for our port and our region.

Over the course of the year, we brought a team of people together to identify our ultimate purpose as an organisation. In the common threads from these discussions, we found our answer: *Together, we build a thriving region by connecting you to the world.*

Our purpose recognises three important factors. First, that Napier Port exists first and foremost for the good of our region. Second, our role as a connector or gateway to the world. And third, that our purpose can't be achieved alone – our success is intertwined with that of our customers, owner, community, partners and stakeholders.

So how best to achieve our purpose? We refreshed our strategic direction this year, setting a new path toward our future – all with our guiding purpose in mind.

We committed to pursuing a path of collaboration – building the network of infrastructure, technology and relationships our region needs together with strategic partners. In this way, we intend to build a network of partners invested in each other's success.

We also recognised the central importance of our cargo owners as customers. It's shippers who keep our port humming, and their valuable cargoes are what keeps shipping lines returning to our port. We'll be working hard to get closer to our cargo customers, understanding what makes their business tick and how we can improve their supply chain.

Looking ahead, we are focused on harnessing data and technology to create new value for our customers, and truly embed Napier Port as a partner in their supply chains.

BUILDING OUR FUTURE

Late this year, we embarked on a refreshed master planning process that, alongside our strategic plan, will guide our investment over the next 30 years. We are talking with customers and stakeholders to make sure that their needs are incorporated, and look forward to sharing our plan with our community next year.

In November this year, we were granted resource consents to build a much-needed sixth wharf. It was the culmination of three years' hard work, extensive studies into potential impacts of the development, and thorough consultation with our community. I am confident that through robust science, we have found the construction and dredging programme that best protects the mauri of Pania Reef and the health of the harbour as a whole. The approval of the consent is a major step forward, and future-proofs our ability to ship Hawke's Bay's goods to the world.

A NEW CAPITAL STRUCTURE

Alongside the resource consent process, Hawke's Bay Regional Council went through an extensive process of their own, considering options for the future ownership of Napier Port. In October, the council opened public consultation on four options, including its preferred option of a partial listing on the New Zealand Stock Exchange. I commend Council

on its commitment to enabling the future of Napier Port through this process and the consultation they have managed with the public of Hawke's Bay – it is a pivotal moment for the port and for the future of Hawke's Bay that will unlock the region's economic potential.

It has been a defining year for Napier Port, and as a team we have achieved a lot. We have come to the end of the year with a clear vision for where we're going and how we'll get there, and with many of the building blocks already in place. I look forward to pursuing our future path in partnership with our customers and our community; working toward a thriving future for Hawke's Bay.

THANK YOU

I'd like to extend my heartfelt thanks to the Napier Port team, our customers and the community who have made my family and I welcome in Hawke's Bay. It has been a pleasure getting to know you all, and I look forward to working alongside you in the years to come.



TODD DAWSON
CHIEF EXECUTIVE

OUR HIGHLIGHTS



5.1

MILLION TONNES OF CARGO HANDLED
7% INCREASE



266,006

TEU CONTAINERS HANDLED



3.1

MILLION TONNES OF BULK CARGO HANDLED
22% INCREASE



51,126

TEU HANDLED THROUGH PORT PACK
6% INCREASE



246

PERMANENT STAFF



4,025,986

TONNES OF EXPORTS
UP 11.5%



1,056,455

TONNES OF IMPORTS
DOWN 7.7%



684

SHIP CALLS



\$17.6

MILLION PROFIT



\$10

MILLION DIVIDEND



\$15.7

MILLION INVESTED



13

MINUTE AVERAGE TRUCK
TURNAROUND TIME
IN PEAK SEASON

RECORDS



79,987

CONTAINERS
HANDLED THROUGH
PANDORA DEPOTS



2.2

MILLION TONNES
OF LOGS EXPORTED
35% INCREASE



23,000+

TEU OF APPLES
EXPORTED



57

CRUISE SHIP
CALLS



151

LOG VESSEL
CALLS



309

BULK VESSEL
CALLS



\$23

MILLION IN
PASSENGER
SPEND*



103,000

CRUISE
PASSENGERS

*Statistics New Zealand

OUR REGION

Hawke's Bay is thriving. Our economy is growing across the board, with local businesses expanding and new businesses starting up. Large-scale businesses are moving in, attracted by the ease of doing business in a region where business and people are connected, space is abundant, and freight flows freely.

Our food exports are in demand, bolstered by our reputation as a clean, green region. Our forests are ready for harvest, and our fibre exports are heading to all corners of the globe. Our tourism industry is booming, with an abundance of new visitor experiences.

We have the good fortune to live and work in a picturesque natural environment, from rolling farmland to sprawling vineyards and vast beaches. With rich soils and a sunny climate, the adage that Great Things Grow Here™ rings true. In a world where consumers are increasingly conscious of the origin of their products, Hawke's Bay has a compelling story to tell.

The lifestyle and career opportunities on offer in Hawke's Bay are attracting clever people from far and wide, joining the ranks of talent grown here. The ease of connectivity and remote working is opening a world of new opportunities, fuelling the growth of tech and innovation companies with a base in the Bay.

Hawke's Bay is connected by a network encompassing road, rail, sea and air. At the heart of that network is Napier Port, a busy seaport that connects our businesses to world markets, unloads the goods that keep our economy running, and welcomes tourists to explore our region.

At Napier Port, we're passionate about our region. We know that there's room to grow and potential to be realised, and we're working hard to connect our region to a prosperous future.



PLANNING FOR TOMORROW'S PORT

As Hawke's Bay's economy grows, Napier Port is growing too. Growth is welcome but it creates challenges that we need to plan for – larger ships, a significant uplift in cargo and the congestion that creates.

Napier Port plans to meet the region's needs with a new wharf. At 350 metres long, the port's sixth wharf will service the container terminal and free up other wharves for our growing log and general cargo trade. It will allow the cruise ships Napier Port currently turns away to visit the region and will mean we can accommodate the larger vessels that are currently too big to enter the port.

Over the last three years, Napier Port made it a priority to get the best scientific information possible and commissioned 17 studies into the potential impacts of the project, including cultural values, coastal processes, dredging plumes

and disposal, traffic and economic impacts. Over the same period, Napier Port spoke with more than 2,000 stakeholders and members of the community about the project as part of an extensive consultation programme.

Late this year, three independent commissioners engaged by Hawke's Bay Regional Council granted resource consent to build 6 Wharf along the northern edge of Napier Port's container terminal and progressively make the shipping channel deeper and wider. It is hoped construction of the wharf will begin in 2020, with the wharf operational by 2022.



The decision gives importers, exporters, shipping lines and the tourism industry certainty that Napier Port will be able to meet their needs well into the future.

While 6 Wharf is key to building Napier Port's capacity, it is just one asset in a broader transport infrastructure network that needs to be working together to help our economy thrive.

Planning tomorrow's port is a partnership, and Napier Port is working closely with customers to understand their aspirations and what that means

for their future port and logistics requirements. We are talking to regulators, local and central government, and business and industry groups, along with our local community, to build a strong understanding of their expectations and the future trade landscape. Insights from these discussions are helping Napier Port to shape a comprehensive master plan to guide investment in infrastructure, equipment and capability in the years ahead.



INFRASTRUCTURE & CAPABILITY

Napier Port is connecting our businesses to their markets and our region to growth. Having the right network of infrastructure in place is a vital part of future plans.

The easy flow of cargo between road, rail, sea and air is critical to our region realising its economic potential. With an eye to the future, Napier Port is extending our network of freight hubs, planning for an additional wharf, strengthening transport links, and investing in smart solutions.

BUILDING CONNECTED INFRASTRUCTURE

Napier Port is looking outside the port gate to find customer solutions and integrate them with a supply chain network that brings the port closer to its customer base. The Manawatu Inland Port, a collaboration between Napier Port, Ports of Auckland and Halls Group, connects the importers and exporters of Manawatu with Napier Port through a feeder hub in the Palmerston North industrial zone. This year saw the facility handle a growing volume of cargo as shipping lines trialled the hire and dehire of containers.

Napier Port brought an additional 4.4 hectare container depot facility online this year. Located next to our existing depot in Pandora and with strong transport links to the port, the facility will cater for growth in the supply of empty containers to export customers.

A 12.4 hectare site in the industrial zone of Whakatu is earmarked for a future freight hub, connecting a major export base directly to Napier Port via rail and supporting the region's future growth.

ENHANCING TRANSPORT CONNECTIONS

As our economy grows, it is critical that the network of connections to Napier Port is protected, enhanced and expanded. The long-awaited Whakatu Arterial Link has been constructed over the past year, and will provide a more direct route to the port from the region's growing industrial hub. The Government also announced plans for a new road to replace the slip-prone Manawatu Gorge route which, once opened, will remove a significant vulnerability from the Central North Island freight network.

The volume of cargo reaching Napier Port on rail is growing, with rail links connecting the port to customers from the Central Plateau down to Whanganui. An average of 40 trains per week now arrive at Napier Port, delivering logs, pulp and a variety of containerised cargoes. Rail connections to Napier Port are set to expand, with KiwiRail planning to reopen the line linking Wairoa to Napier Port for a regular log freight service. Once open, the line will strengthen the freight network and provide exporters in the Wairoa region with an alternative to trucking logs over State Highway 2.

SUPPORTING GROWTH IN BULK CARGO

Napier Port's bulk cargo operations are in rapid growth mode, with new records set for log exports and timber packing every year. To cater for growth, Napier Port is making space and bolstering infrastructure, equipment and resources across the bulk operation. The port's overflow log storage area was moved to 4 Wharf this year, bringing it closer to the central log yard operation.

In conjunction with our customers, a log storage allocation model was introduced to drive enhanced throughput and productivity, and is currently being refined in consultation with the industry.

CONNECTING REFRIGERATED CARGO

A large-scale cargo tower installed this year is powering an extra 144 connections for refrigerated containers, keeping our customers' high value cargo in premium condition and maximising the efficient use of our footprint. The new towers allow refrigerated containers to be stacked four high and take the number of refrigerated container connections at Napier Port to more than 1,000.

A further six towers will be erected in 2019, powering up to an additional 288 TEU of refrigerated containers.

GROWING THE HEAVY FLEET

Napier Port expanded our heavy equipment fleet this year, investing in two new Konecranes reach stackers. Four new heavy machines replaced older models, future-proofing and enhancing our fleet. The new machines are equipped with additional safety features and noise-reducing technology, and are part of Napier Port's drive to operate in balance with the needs of our neighbours.



OUR CUSTOMERS

As the saying goes, 'time is money'. Getting our customers' goods to market quickly and in top condition is paramount, and Napier Port works hard to provide the systems, infrastructure and services our customers need to make that happen.

Our importers and exporters are central to our success – when they're growing, so are we. Across the tourism, agriculture, horticulture and forestry sectors, our customers are setting ambitious growth targets for the coming years. Napier Port will be alongside them all the way, delivering the logistics solutions they need to build their business.

ALL-TIME HIGH FOR LOG EXPORTS

The forestry sector is booming, with the harvest of estates across Hawke's Bay and the lower North Island accelerating. This year saw our forestry customers export a record 2.2 million tonnes of logs through Napier Port, a 35% increase on the 1.6 million tonnes exported in 2017. Exports are expected to continue to peak over the next decade, with customers forecast to be sending 3 million tonnes of log exports through Napier Port around 2027.

RECORD APPLE EXPORTS

It's been a bumper crop for apple exporters this year, with a record of over 23,000 TEU of Hawke's Bay apples crossing Napier Port's wharves on their way to world markets. Export volumes are expected to continue to grow, with the industry pursuing a major planting programme across Hawke's Bay.

KEY IMPORTS UP

Oil and fertiliser imports continued an upward trend this year, reflecting the growth of our regional economy and the strength of our agricultural sector. Oil imports were up 9,000 tonnes on last year, and fertiliser imports rose 20,000 tonnes on 2017.

CELEBRATING CUSTOMER SUCCESS

Hawke's Bay is driven by the success of the primary sector and when the sector is growing and succeeding, our port and our economy are too. Napier Port is especially passionate about supporting our primary producers. We have been proud sponsors of the Napier Port Hawke's Bay Primary Sector Awards for the last four years, recognising talent in the industry and celebrating innovation.

INTRODUCING OUR CUSTOMER CHAMPION

We welcomed David Kriel to our senior team this year as Napier Port's new General Manager Commercial. David is a strong believer in the power of partnerships, and is passionate about working alongside customers to help achieve their goals.

David came to Napier Port from Lodestar, the logistics arm of Japanese giant Oji Fibre Solutions. With Oji the parent firm of Pan Pac Forest Products, David brings a strong understanding of Napier Port's largest customer, their port and logistics needs, and their future growth plans.

David has an extensive background in transport and logistics, and is active in industry bodies including the Chartered Institute of Logistics and Transport and the East Asian Society for Transport Studies. He's committed to giving back, and is a member of the Humanitarian Logistics Association, an agency dedicated to empowering humanitarian logisticians to deliver emergency relief more effectively.

Originally hailing from South Africa, David and his family have been based in Mount Maunganui for the past 13 years and are excited to join the Hawke's Bay community.



GROWING BUSINESS



Local beverage company The Apple Press celebrated its first export order this year, with 20,000 bottles of its signature apple juices leaving Napier Port bound for Japan. The company makes the most of Hawke's Bay apples that don't make the grade for export, transforming them into juices distinguished by the unique flavours of each apple variety.

A former orchardist, founder Ross Beaton drew on a strong network of support to build the business, securing both start-up capital and supply agreements from within Hawke's Bay. Pipfruit exporter T&G Global was one of the first to jump onboard, giving The Apple Press their pick of the crop from a network of local orchards and providing a sustainable supply of tree-ripened Hawke's Bay apples.

It's been a fast-paced ride for Ross and The Apple Press team, with the high-spec equipment imported through Napier Port in May now producing up to 12,000 bottles an hour.

Napier Port has been with them every step of the way. And we're looking forward to being part of the next step, as they grow their business on a global scale.



TECHNOLOGY & INNOVATION

Tomorrow's port is a smart, connected logistics business, harnessing insights and data to create clever solutions for customers.

At Napier Port, we're not afraid to challenge ourselves, and venture into the unknown to find new and better ways of doing things. We're embracing emerging technology, capturing and utilising data, and expanding our digital capabilities.

As we shape a new future, we'll seek partnerships with leading tech providers, recognising that our size and capabilities present an ideal testing ground for cutting edge technologies.

BUILDING INTELLIGENT SOFTWARE SOLUTIONS

Napier Port developed a smart software programme – SSIMs – that optimised vessel planning by 95%. A world first, the system works with the Navis Autostow programme to automatically generate container ship stowage plans for both standard and special containers. The team also developed a system to automate vessel load lists and created an app for our refrigerated container technicians, which reduced the number of devices required from four to one.

POWERING UP WITH A NEW WEBSITE

This year we launched a new website, boosting the user experience with improved functionality, simple information architecture and clean design. We also introduced real-time tools, such as weather and tide readings, and brought our tools and guides together into a central customer portal. We brought health and safety inductions online, enhancing the safety and security of our port while saving time for regular port users and our health and safety team. The new website also walks the talk, showcasing our people and giving our customers and community an insight into the dynamics of a working port.

REAL-TIME INFORMATION AT YOUR FINGERTIPS

We're continuing to develop smart solutions for our teams and this year, we built our first interactive and real-time geographic information system (GIS). The interactive digital system displays real-time environmental data and critical information about our infrastructure and services. It's accessible from anywhere via a phone or tablet, and is proving a timesaver for our people. It's already helping to inform management and environmental decisions, and has potential to contribute to health and safety, emergency response, commercial decision-making and supply chain analysis.

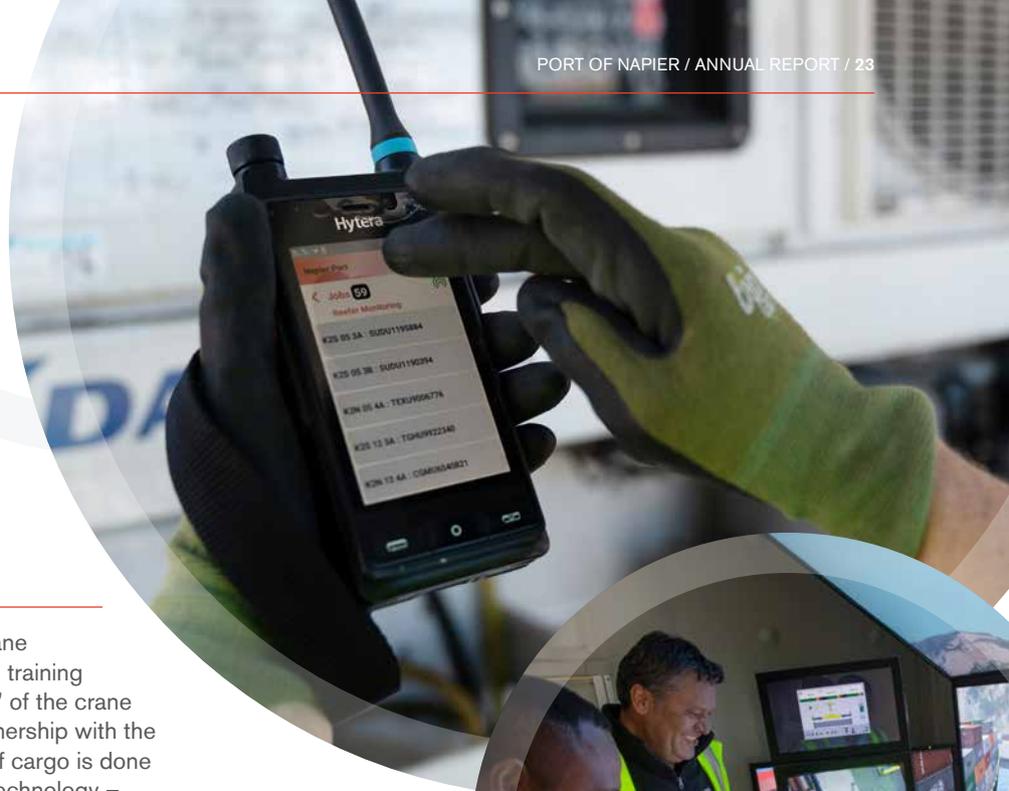
SIMULATOR TRAINING DRIVES SAFETY AND EFFICIENCY

Using our state-of-the-art mobile harbour crane simulator, we extended our simulation-based training to hatchmen this year. As the 'eyes and ears' of the crane driver on a ship, the hatchman works in partnership with the driver to ensure the loading and unloading of cargo is done safely and efficiently. Now using advanced technology – multi-display screens, built-in motion, and realistic controls – we can replicate the hatchman environment and give stevedores as much practise as necessary before live operations.

We continued to deliver our training programmes for the recruitment and development of crane drivers, both nationally and internationally. Under the guidance of our highly-skilled senior crane drivers, trainees practise challenging real-world operations in complete safety; while businesses reduce the costs of training, save time and keep container operations at peak productivity.

TOMORROW'S TECH

We're researching, testing and developing new solutions for our customers, and this year we have been working on several developments that will help us provide more effective storage and handling of bulk cargo products. Future developments will see a focus on solutions that help manage operational peaks, improve efficiency, and provide real-time information on product integrity for customers.





Local distributor Oil Intel keeps the wheels of industry turning across Hawke's Bay, supplying oil products for the machines that do the grunt work across our economy.

The nationwide agent for Total Oil, Oil Intel is based in the industrial zone of Whakatu and imports most of its product through Napier Port. It's a symbiotic relationship, with the oil products also used to keep our machines running smoothly across the port and goods moving across our wharves.

But it's not just the direct connection between the two companies that drives a successful relationship. Products imported by Oil Intel are used throughout our economy, for everything from the cherry pickers across our orchards to the conveyer belts at Wattie's. You'll find them up and down the supply chain, powering everything from the chainsaws harvesting logs to the trucks carrying them to our port for export. It's a network of connections that, together, keep our economy running.

FUELLING INDUSTRY



OUR PEOPLE

246
 permanent staff at
 30 September 2018

18
 fixed term and
 casual staff at
 30 September 2018

33 people
 have been with
 Napier Port for more
 than 20 years

7 people
 have been with
 Napier Port for more
 than 40 years

84% men

16% women

32% under 40

68% over 40

He aha te mea nui i te ao? He tāngata, he tāngata, he tāngata.
 What is the most important thing in the world? It is the people,
 it is the people, it is the people.

We know where we're going, and it's our people and our culture that will get us there. We've worked hard to make sure that Napier Port is an environment where our people can thrive; a place where every person can find meaningful and challenging work, where they are empowered to think outside the box, and where they can realise their potential.

We're proud to have a resilient, agile culture that encourages care, safety and innovation. But we're not stopping there. We're building on those foundations to shape the culture, skills and thinking we need to achieve our future.

SKILLS FOR THE FUTURE

The world of work is changing rapidly, and Napier Port is planning ahead to ensure our workforce is future-ready. We're working toward a customer-centric culture with care, collaboration and leadership at its heart.

Effective leadership is critical to achieving our goals, and we're making sure that leaders at all levels of our business are equipped with the right skills. This year, we engaged a leadership expert to provide one-on-one coaching for all senior managers, and training for those newly promoted into management roles.

This year, we invested in training our people in everything from mental health to media. The new Certificate in Port Operations, developed by the Port Industry Association and MITO, has seen strong uptake from our operational staff since its launch last year, and 35 of our people are now working toward the qualification.

We know that strong, meaningful relationships with iwi and hapu are integral to the future growth and success of our region and this year, we began a formal programme to strengthen our cultural capability.

All senior managers, along with communications advisors, undertook a four-month course in Te Reo and tikanga Māori, building basic language skills and an understanding of Te Ao Māori.

NEW FACES AT THE HELM

We welcomed a number of new faces to our senior management team this year. Todd Dawson stepped into the Chief Executive role in January, marking a step change in Napier Port's leadership, and Logistics expert David Kriel joined the team as Napier Port's new General Manager Commercial.

PROGRESSION PATHWAYS

Napier Port is committed to creating opportunities for our people to broaden their skills, challenge themselves, and gain qualifications.

This year saw us strengthen training and progression pathways within our mooring team. We also introduced new progression pathways for our

mechanics and heavy machinery operators that recognise leadership, commitment, safe work and a team-centric approach.

We celebrated a number of internal promotions and secondments. Last year we brought Colin Sellars onboard in a Marine Officer role, providing an opportunity to train as a pilot while supporting the wider Marine team. This year saw him climb the ladder to qualify as a pilot, with support and mentoring from our senior pilots. Launchmaster Hayden Moffitt also marked a major milestone in his career, becoming a qualified Tugmaster.

Rising star Ian Raku Raku stepped up to the Operations Services Manager role this year, also becoming Napier Port's fourth graduate of the Chartered Institute of Logistics and Transport's Leaders for the Future programme, a course aimed at developing leadership capability in the logistics sector.



BUILDING TOWARD A BRIGHT FUTURE

We introduced a number of new positions this year to cater for the growth and change in our business. Two Container Terminal Coordinator roles are improving the efficient allocation of people, equipment and space across our terminal operation. Additional roles across our Finance, Port Pack, Marine and Mooring teams are broadening our skill base and strengthening our capacity. Our Communications team is growing to support a comprehensive engagement programme that will connect our people, community and stakeholders as we move forward together.

A CULTURE TO BE PROUD OF

Napier Port undertook a qualitative survey of our people this year, with people from across the port taking the time to answer questions on how our culture had changed and where we could improve. The development of our safety culture was seen as a fundamental change that had a profound impact, along with the change to a team-based culture. There's still room to improve, and the need for effective, transparent and face-to-face communication was a frequent theme. Overall, our people said they were proud to work for Napier Port, and felt that our culture was on the right track.

COMMITTED TO COLLECTIVE SUCCESS

Napier Port is committed to sharing our knowledge and experience for the benefit of our industry, our customers and our region. We welcomed a range of customers, partners and industry leaders onsite to share our approach to operations, safety and culture, and worked in collaboration with industry regulators Maritime New Zealand and WorkSafe New Zealand to develop tools and initiatives to improve safety across the port sector.

Our people travelled nationally and internationally to share their expertise and insights at industry forums, conferences and events. They continue to actively contribute to industry bodies including the New Zealand Cruise Association, the Port Industry Association, Navis Users Group, PIANC, and the Chartered Institute of Transport and Logistics. This year saw General Manager Culture and Community Viv Bull appointed Deputy Chair of the Hawke's Bay Chamber of Commerce.



GOING THE EXTRA MILE

In June this year, Business Development Manager Steve Young took home the Unsung Hero award at the Hawke's Bay Export Awards, recognising his tireless work on behalf of exporters across the Hawke's Bay and Gisborne regions. Steve's nomination was supported by Ross Beaton of The Apple Press, who paid tribute to Steve's dedication and willingness to go the extra mile for customers.



OUR PARTNERS

Napier Port's work connects us with a diverse range of businesses and organisations locally, nationally, and internationally. We approach these relationships from a partnership point of view – looking at what insights we can share that might benefit one another.

HEALTH AND SAFETY COLLABORATION

Located north of Napier Port in Whirinaki, Pan Pac is the largest exporter of logs, timber and wood pulp products in Hawke's Bay. With both Pan Pac and Napier Port operating in high-risk environments, we're working together to share safety insights. Napier Port has welcomed Pan Pac staff onsite for port tours, and to demonstrate our safety framework in practice. In exchange, we've visited the Pan Pac site for a first-hand look at their safety culture at work. Napier Port is deeply committed to forging new territory in the field of workplace health and safety; we welcome business co-collaborators like Pan Pac.

GREAT THINGS GROW HERE™

This Hawke's Bay initiative highlights our region's success at growing great food products, and thriving local businesses. Great Things Grow Here™ brings Hawke's Bay businesses together as brand champions, sharing the stories that make up our region's success. Napier Port is a proud brand champion and helped to develop the Think Hawke's Bay campaign, talking with businesses outside the region that might be interested in relocating here.

CONNECTING WITH OUR FIJIAN NEIGHBOURS

What started as a commercial relationship with Fiji Ports Terminals Ltd, training crane operators in our innovative crane simulator, has developed into a genuine exchange of culture, ideas and learning. Fiji Ports senior managers have

visited Napier Port to understand more about our safety culture and operations, putting what they've learned into practice and transforming the culture at their terminals in Suva and Lautoka. Members of our Napier Port team have visited Fiji Ports three times since this partnership started, gaining new insights into port operations within the Pacific.

PARTNERING WITH PORT USERS ON SAFETY

We're working more closely than ever with Napier Port users, as part of our 'whole of port' approach to health and safety. With any new safety initiative, we consult, cooperate and coordinate with other PCBUs operating here, gaining their buy-in and strengthening the final result. This was highlighted through the development of our new Individual and Company Safety Protocols, and a Licence to Operate contract. These clearly set out our health and safety standards, and will help to formalise our engagement with PCBUs where we didn't have a direct relationship.

Port Pack team members Phil Munro and Paul 'Red' Hamer don't have to look far to find a connection to our biggest customer. As skilled forklift operators, they spend their days packing Pan Pac pulp and lumber, ready for export to world markets.

And after hours, you'll find them exploring the mountain bike trails that snake through the Pan Pac forests where those products are grown. It's not only a great chance to stretch the muscles, but a chance to see the full life cycle of the products they handle.





THE FULL LIFE CYCLE

HEALTH & SAFETY

144
Mole Map checks

1,460
health and safety
inductions completed

311 places
funded on health and
safety-related courses

50
different health
and safety courses

Our people are our greatest strength, so everything we do has health and safety at its heart. Napier Port is proud to have earned a reputation as an industry leader in safety and innovation. If there's a safer way to deliver for our customers, we'll find it.

SAFETY LEADERSHIP SHINES AT NATIONAL AWARDS

Napier Port's commitment to safety was recognised at a national level this year, with the port selected as a finalist in three categories at the Safeguard Awards. The awards are run by WorkSafe and celebrate excellence in workplace safety.

Napier Port won the IMPAC Best Collaboration Between PCBUs Award for our proactive approach to managing shipside safety with our operational partners. The award recognised the positive impact of pre-vessel meetings, which bring together all parties working a log ship to discuss and agree on a plan for the operation. Since the introduction of this initiative, we've seen a 75% reduction in the number of vehicle-related incidents.

General Manager Culture and Community Viv Bull broke new ground, becoming the first woman to be a finalist for the Health and Safety Leader of the Year Award. Napier Port was also selected as a finalist for the Industry Leadership Award, for the transformational effect of our training and culture development work with Fiji Ports Terminals Ltd.

SERIOUS INJURY

In March, one of our employees experienced a serious injury. This was a huge blow to him, his family and our wider team. We are doing everything we can to support our team member over the course of his recovery. We are also doing everything we can to learn from this devastating incident to ensure there is no repeat.



DRIVING SAFETY

As part of our drive to make Napier Port a safer place, speed limits were reduced to 20 km/h across the port in April, with the support of our customers, port users, staff and operational partners.

DIGITAL SAFETY INDUCTIONS LAUNCHED

Health and safety inductions became more accessible this year, with the development of an online tool that enables port users, visitors and contractors to take their induction anywhere. Since it was launched in April, 1,460 people have completed a Napier Port health and safety induction.

PREPARING FOR EMERGENCY

Napier Port's response team tested their mettle in October last year, gathering for a crisis simulation to practise systems for dealing with an emergency situation. It was a great stress test for our emergency procedures and a strong assurance that any incident on port is in good hands.

ENCOURAGING A HEALTHY WORKFORCE

This year brought a new focus on the health of our people, with a series of awareness and action campaigns targeting issues such as fatigue, hearing loss, and cardiovascular health. We continued a comprehensive health monitoring programme for staff in at-risk roles, ensuring that they can keep on top of their health. At the beginning of our peak season, all operational staff received a season wellness kit that encouraged healthy eating, hydration, exercise, relaxation and sleep.

We also embarked on a comprehensive programme to manage fatigue amongst our workforce, recognising that it is a major risk factor amongst shift workers. The programme was kicked off with sessions from world-renowned fatigue expert Professor Drew Dawson on the complexities of fatigue.

We also focused on wellness and mental health initiatives this year, running interactive campaigns and training our people in how to recognise signs of mental distress in those around them and how to help.

Napier Port continued to support our people through providing onsite health clinics, flu vaccinations, therapeutic massage, Mole Map tests, and prostate cancer checks for staff. We also provide access to a comprehensive employee assistance programme and an onsite support person.

PINKING UP TO PROMOTE RESPECT

Napier Port took Pink Shirt Day to a new level this year, with our people embracing the campaign's anti-bullying message. Pink Shirt Day is a global campaign that promotes safety and respect across schools, workplaces and communities. The port team flexed their creative muscles, sporting pink garbs of all varieties including wigs, leg-warmers, tutus, cowboy hats and even 'painting' some of our port equipment pink (with the use of a little Photoshop technology).

CRUISE

57
cruise ship visits

103,000
passengers

43,000
crew

3 visits
by Ovation of the Seas
(348 metres LOA)

\$23 million
in credit card spending
(Statistics New Zealand)

3 maiden calls

Sun-soaked landscapes, unique architecture, a burgeoning food, wine and culture scene – it's no wonder that tourists flock to Hawke's Bay.

Every year, Napier Port welcomes more cruise tourists than the last. And the 2017-2018 cruise season was no exception, with 103,000 passengers and 43,000 crew arriving on our shores.

Napier Port works in partnership with our local tourism industry to ensure that our cruise passengers enjoy a great visitor experience in Hawke's Bay. Together with Hawke's Bay Tourism, Napier i-Site, Nimon's buses, ID Tours and local tourism businesses, we ensure passengers come away with a visit that's memorable for all the right reasons.

And it's working: demand for the Hawke's Bay experience is growing, and cruise lines are booking more Napier calls every year. Our tourism industry is flourishing, with new ventures opening every year and enhancing the breadth of our offering as a tourist destination.

RECORD VISITOR SPENDING

Passenger spend soared this season, with cruise visitors bringing more than \$23 million* into our local economy. Passengers spent on average \$227 per day while in Hawke's Bay, enjoying attractions from Cape Kidnappers to Tangoio. And with passengers spending up to an average of \$620 per day in other centres, there's plenty of growth potential ahead.

**Statistics New Zealand*

GIANT LINERS CALLING AT NAPIER

Napier Port is now a regular fixture on the itinerary of the Ovation of the Seas, the largest cruise ship to sail New Zealand waters. The giant liner called three times over the 2017-2018 season, bringing 15,000 tourists into our region.

GROWING INDUSTRY

The 2018-2019 cruise season is set to be another record season, with 72 ships scheduled to visit Napier. With up to 125,000 passengers exploring all that Hawke's Bay has to offer, visitor spend is expected to top \$28 million. We also welcomed the Majestic Princess for the first time in October 2018. At 330 metres LOA, it is the second largest vessel ever to call at Napier.

PIER PRESSURE

Napier Port has continued its programme of upgrades to our existing cruise infrastructure, to support the growth our tourism sector has ahead in the near future. But looking further ahead, our infrastructure needs to be capable of handling Oasis class ships, which are around 360 metres LOA. Building a new wharf will enable us to bring in more cruise ships, including the Oasis class liners that are too large to berth in Napier at the moment.



*Photo Credit:
Warren Buckland,
Hawke's Bay Today*

From import as a raw material to export as a valuable product, a coil of tin makes a full circle in Hawke's Bay.

Lifted from a ship berthed in Napier Port, a container holding two 10 tonne coils of tin plate is stacked ready for collection from the port's container terminal.

It's picked up by one of the Tomoana Warehousing Ltd fleet, and trucked to the Tomoana Food Hub – a base of food production on the outskirts of Hastings. Safely delivered to specialist packaging firm Jamestrong, the coil is unloaded and fed into the production line, where it's transformed into thousands of tin cans.

Over the fence at Wattie's, those cans are filled with New Zealand classics like baked beans and spaghetti or Hawke's Bay produce like peaches, apricots and asparagus.

From here, they're distributed to stores across New Zealand, fuelling the people who keep our supply chain running. The cans are also packed into shipping containers and trucked back to Napier Port to be loaded back onto a ship, and taken to markets across the world.





TOYANA 
WAREHOUSE | TRANSPORT

CONNECTED ECONOMY



OPERATIONAL PERFORMANCE

5.1 million
tonnes of cargo handled

266,006 TEU

2.2 million
tonnes of logs exported

35% growth
in log exports

51,126 TEU
handled through
Port Pack

13 minute
average truck turnaround
time (peak season)

684
ship calls

23,000+ TEU
of apples exported
(new record)

Napier Port delivered for our customers this year: handling more cargo, packing more containers, and setting new benchmarks in efficiency and performance.

Napier Port celebrated handling 5.1 million tonnes of cargo this year, up from 4.7 million tonnes in 2017. It's a testament to the success of our customers, who continue to entrust us with their cargo, and the growth of our region.

The throughput of bulk cargo, including logs, grew rapidly. Napier Port handled 3.1 million tonnes of bulk cargo this year, a 22% increase on the 2.5 million tonnes handled last year.

Overall, our container terminal handled 266,006 TEU over the year. This is slightly down on last year's extraordinary result, which was driven by the temporary closure of CentrePort due to major earthquake damage.

MAJOR MILESTONE FOR PORT PACK

Napier Port's onsite packing and devanning operation hit a new milestone this year, passing the 50,000 TEU mark. The Port Pack team were proud to take care of a record 51,126 TEU for our customers this year, a 6% increase on the record 48,310 TEU handled last year.

Port Pack is gearing up for further growth, with major customers Pan Pac Forest Products and Winstone Pulp International forecasting significant growth in their export operations over the coming years.

DELIVERING ON TIME

Smart systems and planning saw an average truck turnaround of 13 minutes this year, allowing customers and transport firms to maximise their time by planning additional trips.

NEW PRODUCTIVITY RECORDS FOR CONTAINER TERMINAL

Napier Port's container terminal handled 30,263 TEU in its peak month. The terminal also set a new record for vessel throughput on a regular service, with 67 container moves per hour achieved across a 12 hour exchange.

EFFICIENCY GAINS IN LOG OPERATION

Our log yard is running more efficiently than ever, thanks to an increased turnover of logs. Through working closely with our log exporters, we have been able to turn over 92.6% of logs within four weeks of their arrival on the wharf – up from 84.9% last year. We are also loading more logs per vessel – an average of 14,600 tonnes, up from 13,800 tonnes in 2017.

The log vessel CS Celeste also stacked up a new record on 11 March, leaving Napier Port a whopping 39,775 tonnes heavier. A record 36,491 JAS of logs were loaded onto the vessel over five days.





CHANGING SHIPPING NETWORK

Across the globe, the shipping sector remains in a state of continual change. This year saw the launch of shipping line ONE (Ocean Network Express) – the result of consolidation amongst Japanese lines NYK, Mitsui and K-Line. China COSCO Shipping, the result of a 2016 merger between COSCO Group and China Shipping, finalised a takeover of OOCL this year.

Closer to home, New Zealand has seen some significant changes to shipping services. Maersk has reshaped its New Zealand routes, discontinuing the weekly Northern Star service (Timaru – Nelson – Wellington – Napier) in favour of a new weekly Southern Star service to Southeast Asia, calling at Tauranga, Napier, Lyttelton and Otago. This service begins in late 2018. Conversely, the weekly Panama Direct service (Tauranga – Napier – Nelson) to Europe and North America was downgraded following the peak export season to a fortnightly call at Tauranga.

Whether this service will resume again remains to be seen, but with the OC1 service also plying the trade route between Napier and Europe, the impact on shipping customers is minimal.

VESSEL RECORDS

This year saw the first container ships capable of carrying over 5,500 TEU arrive at Napier Port. The E.R. Los Angeles, able to carry 5,762 TEU, berthed on 10 December 2017. It was followed by the Chicago, able to carry 5,752 TEU on 21 January 2018 and the OOCL Kuala Lumpur, able to carry 5,888 TEU, on 12 September 2018. All three vessels had a beam of 40 metres, making them the widest container ships ever to have berthed at Napier Port. The Jens Maersk also set a record on April 21, when it departed Napier Port with a draft of 12.2 metres.

Napier Port handled 684 ships overall this year, notching up a record 309 bulk cargo vessels. This includes 151 log ships, up from the previous record of 118 in 2017.

A BUSIER PORT

With more cargo and more ships arriving at Napier Port, our infrastructure is facing congestion challenges. This year saw a record 66% occupancy of the 1 Wharf log hub. Working within a limited space means that ships often need to be moved off 1 Wharf or 2 Wharf in order to guide larger cruise and container vessels onto and off berths. This year saw a record number of such vessel shifts, peaking at 10% during February and March. Our designated anchorage points out in the harbour, used by ships waiting to berth, were in use a record 70% of the time this year.

FINANCIAL PERFORMANCE

Napier Port generated strong results this year, earning a record profit, delivering a healthy dividend to our shareholder and investing in our future capacity.

Napier Port achieved a record financial result this year, delivering a profit over and above that achieved in 2017, when the impact of the Kaikoura earthquake brought additional cargo volume to Napier.

Napier Port generated a record after-tax profit of \$17.6 million in the year to 30 September, a 5% increase on the \$16.7 million earned last year. A record revenue result of \$91.7 million offset a 7% increase in operating expenses, driven largely by a significant increase in insurance costs. Operating profit (EBITDA) was \$38.9 million, up \$1.6 million from 2017. We distributed \$10 million in dividends to our sole shareholder, the Hawke's Bay Regional Investment Company.

With CentrePort's container operations resuming, containerised cargo through Napier Port has returned to the growth pattern anticipated prior to the Kaikoura earthquake. The 8% decrease in containerised cargo was more than offset by a 35% increase in log exports, resulting in a record total trade volume of 5.1 million tonnes.

Over the past six years, Napier Port has invested \$120 million in its infrastructure and equipment to help build operating capacity and ensure it is well placed to handle the region's growing cargo base. This year, we invested \$15.7m in capital projects and equipment, including development of our off-port container hub in Pandora, Napier, and further investment in our resource consent application for a new wharf and dredging. We also invested in paving works, maintenance dredging, heavy machinery, and increasing our refrigerated container capacity.

After the application of operating cashflow to capital expenditure and dividends, Napier Port improved its net debt position at the end of the 2018 financial year to \$80.6 million, down from \$83.3 million at the end of the previous financial year.

During the year Napier Port successfully extended its banking facilities with ASB Bank and Westpac NZ Ltd.

Looking ahead, Napier Port is working towards being able to commence construction of a new wharf and dredging of the shipping channel. The proposed development is a material investment for the company that will result in a strategic asset for the regional economy, and Napier Port is working with its shareholder on a funding plan. Work underway on the master plan for port development will further inform future investment needs to support the regional economy in the decades to come.

OUR COMMUNITY

We're working with our community to build a thriving future for our people and our place. We're proud to call Hawke's Bay home, and we're committed to nurturing and growing the community we're part of.

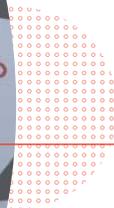
We're building strong community connections, cultivating meaningful relationships with iwi and hapu, and supporting the grassroots clubs, events and initiatives that enrich the social fabric of our community.

Napier Port is committed to being a good neighbour, and is working together with our community to find the right solutions to our future challenges.

SUPPORTING OUR COMMUNITY

Napier Port supports a vibrant, connected community through a comprehensive range of partnerships and sponsorships. This year, we strengthened our sponsorship programme, introducing a framework that focused on seeking social and environmental partnerships with iwi and hapu, encouraging water safety and recreation, and celebrating Napier's maritime connection.

This year saw record numbers diving into the Napier Port Ocean Swim, testing their limits at the Napier Port Harbour to Hills triathlon, and rowing for gold at the National Waka Ama Long Distance Championships.



Napier Port also helped the Westshore Sea Scouts expand their fleet, providing 15 new kayaks that will help their scouts learn how to be safe on the water. The Napier Port Family Fishing Classic was back for a second year, and saw families from across the Bay take to the water in hopes of landing the big one.

NAPIER PORT STEALS THE SHOW

Napier Port's stall was a showstopper at this year's Hawke's Bay A&P Show, drawing families, farmers and schoolchildren in to learn about how the port works, our customers and cargo, and how we're caring for our environment. It was a great opportunity to engage face-to-face with our community about the challenges we face as we grow, and understand what is important to them as we go forward. Hawke's Bay Regional Council staff and councillors joined us to answer questions on the options being considered for the future ownership structure of Napier Port.

HAERE MAI, TE MATAU A MĀUI

Waka hourua (double-hulled voyaging waka) Te Matau a Māui sailed into Napier Port in August for its annual survey and maintenance, as part of a special partnership between Napier Port and Te Matau a Māui Waka Voyaging Trust. The waka was lifted out of the water by our expert team, and cared for on port for a month while it was strengthened and painted.

COLLABORATIVE SOLUTIONS FOR OUR NEIGHBOURS

The support of our community is important to us, and we know we can't take it for granted. As Napier Port grows, we're working alongside our community to find solutions to the challenges of living close to a busy port. This year, we worked together with our neighbours and expert acoustic monitoring firm Marshall Day to find the best solutions for the homes most impacted by Napier Port's operational noise.

A total of 12 homes near the port have now been fitted with new double-glazed windows, insulation or air conditioning, and we are looking forward to helping to sound-proof more homes around our neighbourhood in 2019.

CELEBRATING OUR MARITIME HISTORY

The history of our region is inextricably linked to the story of Napier Port, and many of the chapters can be read at The Old Customhouse, a boutique museum dedicated to preserving our region's maritime heritage. This year, Napier Port supported the museum to install a display about the Whakaire, a dredging vessel that operated in the Napier harbour from 1911, deepening the channel enough to enable the larger ships of the time to berth in the inner harbour.

We also continued our support of the Hawke's Bay Ship and Marine Society, a group of local history buffs passionate about maritime history.



EMPOWERING
OUR PEOPLE

NAPIER^o
PORT

WESTSHORE

Long-serving Napier Port team member Greig Madden is a passionate surf life saver, having been involved in the sport for many years. And when he isn't on the water, he's several stories above it – loading and unloading ships in his role as a Senior Crane Operator.

Greig leads the men's masters team at the Westshore Surf Life Saving Club, racing competitively in big boat events across the country. He's supported by Napier Port all the way, as a proud sponsor of the team.

The team train regularly at the bay next to the port, maintaining form and perfecting technique. This year, the boys in the Napier Port boat brought home the gold and the glory in the National Masters Series, taking out the top spot in their event. They were also crowned Masters Sports Team of the Year at the Hawke's Bay Surf Life Saving Regional Awards of Excellence.



OUR ENVIRONMENT

The prosperity of our region is built on a healthy environment: fertile soils, sunshine hours and natural ecosystems working in balance. Napier Port is committed to protecting our environment, being a responsible guardian for our harbour and its surrounds, and operating our business in a sustainable way.

A healthy environment is the foundation that underpins the export industries – agriculture, horticulture and viticulture – that play such an important role in our economy. It's also the heart of a story that sees consumers across the globe selecting our products from the shelves, and draws thousands of tourists to Hawke's Bay every year.

At Napier Port, we're committed to doing what's right for the environment through our own operations, and respecting and protecting the mauri of Te Matau a Māui.

We're embracing new technology and smart solutions, and searching for innovative solutions to challenges like waste, emissions and energy. We're cultivating environmental champions amongst our own people and training teams across the port in preventative measures like dust control and spill containment. And we're working hard to

understand the potential impacts of climate change on our business, and the steps we can take to combat it.

UNDERSTANDING OUR ENVIRONMENT

The more we know, the better we can do. Napier Port has a monitoring programme in place for carbon emissions, fuel and electricity consumption, recycling and waste to landfill. We expanded the programme this year, deploying an increasing number of monitoring devices to provide accurate real-time data on our marine environment.

PRESERVING OUR NATIVE MARINE SPECIES

The marine environment surrounding Napier Port is a rich ecosystem, full of native plant and animal species. We work hard to preserve and protect this, through our environmental

monitoring programme. In particular, we're guarding against invasive species that have found their way into other marine environments around New Zealand, including Mediterranean fan worm and clubbed tunicate (a type of sea squirt), through actively monitoring our navigation buoys and encouraging vigilance in our local boating community.

PROTECTING OUR PENGUINS

Napier Port is home to a colony of little blue penguins, who nest in burrows along our sea wall. With a habitat protected from natural and introduced predators, the population is flourishing. Our annual survey of the penguin colony found 85 burrows this year, spread through rock walls within the port and along the Ahuriri coastline. We are working closely with iwi, Department of Conservation experts and the National Aquarium of New Zealand to understand the needs of our penguin colony and ensure that we provide a safe environment where they can thrive.



REDUCING OUR WASTE

Napier Port is working hard to reduce the amount of waste we send to landfill, and a focused waste management programme is reaping results. This year, the amount of waste we sent to landfill fell 9%, and recycling fell 0.2%.

Napier Port is also searching for ways to repurpose our waste that add value to our environment and our economy. We work together with local concreting and construction firms to repurpose waste concrete, preventing it from going into landfill by transforming it into safety barriers.

There's more to be done, and we're starting to engage with like-minded companies and groups to explore new opportunities to contribute to New Zealand's circular economy.

CARBON FOOTPRINT

Napier Port aims to tread lightly on our environment, and we have a number of initiatives in place to reduce our carbon footprint.

We're building infrastructure that allows more refrigerated containers to be powered by electricity, rather than by diesel generators, and our replacement programme is driving investment in more fuel-efficient forklifts.

Napier Port has also embarked on a 10-year programme to convert lighting infrastructure across our network to more energy-efficient LED lighting. Our new depot in Pandora is lighting the way, with a smart LED system that can be controlled via mobile phone or tablet.

This year, our annual carbon emissions (T/CO₂-e) fell by 4%.

DRIVING CHANGE

Napier Port has invested in its first electric vehicle, a battery-powered Nissan Leaf. The car has been trialled by our Infrastructure team, using a charging station installed in our small fleet carpark. The trial proved a success, paving the way for future investment in electric vehicles.

A partnership with local firm BioRich gives waste bark from our log operation another life.

Every year, thousands of tonnes of waste bark is collected from Napier Port. At the BioRich facility in nearby Awatoto, it's combined with waste products from many of our export customers to create rich compost and mulch. From here, it's used to enrich soils in apple and kiwifruit orchards, vineyards, and crop farms, enhancing the yield of growers across Hawke's Bay and sending an ever-greater volume of export-quality produce through the port.

You'll also see the bark mulch and compost used to enhance planting and environmental initiatives across the region by our owner, Hawke's Bay Regional Council.

The partnership saw 3,406 tonnes of waste bark collected by BioRich this year, creating a valuable product from waste.

ENRICHING OUR ENVIRONMENT



SENIOR MANAGEMENT



TODD DAWSON / CHIEF EXECUTIVE

Todd joined Napier Port 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, Mainfreight and Toll New Zealand. Todd is a member of the Institute of Directors in New Zealand.



KRISTEN LIE / CHIEF FINANCIAL OFFICER

Kristen joined Napier Port in 2015 with more than 21 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, Ernst & Young, and PricewaterhouseCoopers. Kristen holds a Bachelor of Business Studies from Massey University and is a Chartered Accountant, Chartered Financial Analyst, and a member of the Institute of Directors in New Zealand.



DAVID KRIEL / GENERAL MANAGER COMMERCIAL

David joined Napier Port in October 2018, and comes from an extensive background in transport and logistics. He has worked with Lodestar and Oji Fibre Solutions in operational and executive leadership roles. At Napier Port, David leads our Commercial Team. David holds a Masters of Science in Transport Management from Lincoln University. He is a Chartered Fellow of the Chartered Institute of Transport and Logistics and sits on the organisation's National Council. He is also a member of the East Asian Society for Transport Studies and the Humanitarian Logistics Association.



VIV BULL / GENERAL MANAGER CULTURE AND COMMUNITY

Viv leads human resource management, health and safety, communications and community engagement at Napier Port. She joined Napier Port in 2011, bringing a wealth of expertise in culture, leadership development, industrial relations and safety. Her career has included human resources and organisational psychology roles with the Department of Corrections, the State Services Commission and KPMG. Viv holds a Master of Science in Organisational Psychology from the University of Canterbury and is Deputy Chair of the Hawke's Bay Chamber of Commerce.



ADAM HARVEY / GENERAL MANAGER MARINE AND CARGO OPERATIONS

Adam leads Napier Port's Marine and General Cargo functions, including the log operation, logistics and planning, security and shipping operations. He comes from a background in human resources, and joined Napier Port in 2010 as Human Resources Advisor. 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, where he is the member responsible for education and training.



WARREN YOUNG / GENERAL MANAGER CONTAINER OPERATIONS

Since joining Napier Port in 1998, Warren has worked across a diverse range of corporate and operational roles. As General Manager Container Operations, he 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 the onsite packing facility 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.



MICHEL DE VOS / GENERAL MANAGER INFRASTRUCTURE SERVICES

As Napier Port's General Manager Infrastructure Services, Michel is responsible for the maintenance, planning and construction of all port infrastructure, as well as overseeing our environmental management programme. Michel comes from a strong background in marine engineering, having previously held roles with Queensland's Gladstone Ports Corporation and Fremantle Ports in Perth, along with specialist dredging firms. He holds a Bachelor's degree in Naval Architecture from the Australian Maritime College and a Graduate Diploma in Maritime and Logistics Management from the University of Tasmania.



BRUCE LOCHHEAD / CAPABILITY AND CRUISE MANAGER

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 behind him 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, sits on the board of the New Zealand Cruise Association and takes an active role in various marine operational forums.

BOARD OF DIRECTORS



ALASDAIR MACLEOD
CHAIRMAN

Alasdair joined the Napier Port board in April 2014 and took up the chairman's role in December that year. Alongside his role as Chairman of Napier Port, he is chair of the Hawke's Bay chapter of ExportNZ, Optimal Workshop Ltd, Hold Fast Investments Ltd, and SilverStripe Ltd. He is a director of Silverstripe Trustee Ltd, a member of the IHC Board Appointments Committee and the Radium NZ Advisory Board, and a trustee of Big Brothers Big Sisters Hawke's Bay.



WENDIE HARVEY
NON-EXECUTIVE DIRECTOR

Wendie joined the Napier Port board in 2013, and has an extensive background in law, executive management and business consultancy. Based in Hawke's Bay, Wendie's directorships include Hawke's Bay Airport, Centralines Limited, Fire and Emergency New Zealand, Quality Roading and Services (Wairoa) Ltd, Aurora Energy and the Electrical Training Company Ltd. Wendie also serves on the Eastern Institute of Technology (EIT) Council.



CHINTHAKA ABEYWICKRAMA
NON-EXECUTIVE DIRECTOR

Chinthaka has 25 years' experience in freight, shipping and logistics. He is a director of transport and logistics firm Netlogix Ltd and its subsidiaries, and is a former CEO of Fonterra subsidiary Dairy Transport Logistics. His career has included roles as Chief Operating Officer for Wellington International Airport, CEO of Carter Holt Harvey Lodestar and Manager Export Shipping at Hayleys Ltd.



DIANA PUKETAPU
NON-EXECUTIVE DIRECTOR

Diana joined the Napier Port board in 2017, and has a broad background in commercial, iwi and sports governance. She is the Chair of Manawanui in Charge and currently sits on the boards of New Zealand Olympic Committee, NZ Cricket, and Netball Northern Zone. She is a director of Ngāti Porou Holding Company, Tāmaki Redevelopment Company, and their subsidiaries. She has previously served as a director for Auckland Council Investments Ltd and the World Masters Games 2017. A Chartered Accountant, Diana was formerly the Chief Financial Officer of Ngāti Whātua Ōrākei Corporate.



STEPHEN MOIR
NON-EXECUTIVE DIRECTOR

Stephen Moir joined the Napier Port board in 2017. Stephen is a director of The Guardians of the New Zealand Superannuation Fund, the Crown entity responsible for managing the New Zealand Super Fund's global investment portfolio. He also sits on the boards of the Todd Family Office and IJAP Ltd. 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.



TODD DAWSON
EXECUTIVE DIRECTOR

Todd Dawson is Chief Executive of Napier Port, and was appointed to the board in an interim capacity in August 2018 following the resignation of former director Stephen Bradford. Todd is Chairman of Longburn Intermodal Freight Hub Ltd, which oversees the Manawatu Inland Port. He is also a director of Quanto Quanto Ltd.

FINANCIAL STATEMENTS

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CORPORATE GOVERNANCE STATEMENT

PRINCIPLES BEHIND CORPORATE GOVERNANCE

The Board of Directors are elected by the Shareholder and are responsible for the corporate governance of the Company. Corporate governance describes how a company looks after the interests of its shareholders.

The Board of Directors is committed to maintaining best practice governance policies and behaviours. Policies are reviewed against applicable standards detailed in NZX's Corporate Governance Best Practice Code. The Board's governance framework adheres to the majority of applicable standards as if the Company were a listed public company.

While recognising that this Code expresses principles and does not purport to determine any detailed course of conduct, the Directors support the need for the highest standards of behaviour and accountability.

The Board and management are therefore committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Company's Code of Ethics sets out the manner in which directors and employees should conduct themselves.

The Board recognise 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 board and senior management level and throughout the Company to ensure that the directors and employees deal fairly with others, with transparency, and protect the interest of the Shareholder and look after the rights of stakeholders.

ROLE OF THE BOARD AND MANAGEMENT

The primary role of the Board is to operate Napier Port as a successful business, and by that to ensure the protection and enhancement of shareholder value in Napier Port while respecting the rights of other stakeholders. Good corporate governance is core to ensuring the creation, protection and enhancement of shareholder value.

The Board oversees the business and affairs of the Company, establishes the strategies and financial objectives with management and monitors the performance of management directly and through board committees, monitors compliance and risk management, and ensures the Company has the appropriate controls and policies.

The Board has access to executive management, and key executive managers are invited to attend and participate in appropriate sessions of board meetings.

BOARD COMPOSITION

The Company's constitution governs the composition of the Board and states that there shall be no more than nine directors, nor fewer than six, and no member or employee of any Shareholder Local Authority may hold office as a director.

The Board currently comprises five non-executive directors and one executive director. All of the non-executive directors are classified as independent. Alasdair MacLeod is the Chairman of the Board of Directors.

CONFLICT OF INTEREST

Where any Napier Port director has a conflict of interest or is otherwise interested in any transaction, that director is required to disclose his or her conflict of interest to the Company, and thereafter will normally not be able to participate in the discussion, nor vote in relation to the relevant matter. The Company maintains a register of disclosed interests.

BOARD AND COMMITTEE MEETINGS

The following table outlines the number of scheduled meetings attended by committee members and directors during the course of the 2018 financial year. In addition to the scheduled board meetings, directors have also met with management on a range of matters during the year.

MEETING TYPE	Board	Audit & Risk	Remuneration	Health & Safety	Strategy & Planning
MEETINGS HELD	10	3	3	3	1
A MacLeod	10	3 [^]	3	3	1
J Nichols *	4	3	1		
W Harvey	10	3 [^]	3	3	1
S Bradford ***	8	3	3	3	1
C Abeywickrama	10	3 [^]		3	1
S Moir	10	3		3	1
D Puketapu **	6	1		3	1
T Dawson ****	2				

* Retired from the Board at the AGM in December 2017

** Appointed to the Board in December 2017

*** Resigned from the Board in July 2018

**** Appointed to the Board ex-officio in August 2018

[^] Non-committee members also in attendance

The Board of Directors has established three committees for Audit & Risk, Health & Safety, and Remuneration. The Chairman appoints the chairs of these committees.

AUDIT & RISK MANAGEMENT COMMITTEE

The Audit & Risk Management Committee operates under a charter, which requires it 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. The Charter is approved by the Board and reviewed annually.

AUDIT & RISK MANAGEMENT COMMITTEE:

S Moir, Chairman

D Puketapu

REMUNERATION COMMITTEE

The Remuneration Committee operates under a charter, which requires it to assist the Board in fulfilling its responsibilities, to appoint, remunerate and evaluate the Chief Executive, review remuneration recommendations of the Chief Executive for senior executives, and make recommendations on any incentive plan for the senior management group. The Charter is approved by the Board and reviewed periodically.

REMUNERATION COMMITTEE:

A MacLeod, Chairman

W Harvey

HEALTH & SAFETY COMMITTEE

The Health & Safety Committee operates under a charter, requiring it to assist the Board in fulfilling its responsibilities in ensuring an appropriate framework is maintained for the management of the Company's strategic and operational health and safety risks. The Charter is approved by the Board and reviewed periodically.

HEALTH & SAFETY COMMITTEE:

W Harvey, Chairman

A MacLeod

S Moir

C Abeywickrama

D Puketapu

BOARD PERFORMANCE

The Board has included in its Charter, a requirement to conduct a biennial review of the Board, board committees and individual directors.

RISK MANAGEMENT

The Board and Senior Management are committed to managing risk to protect our people, the environment, financial business risks, company assets and our reputation.

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

CODE OF ETHICS

Napier Port requires the highest standards of honesty and integrity from its directors, management and employees. A Code of Ethics has been developed and approved by the Board, which sets out the ethical and behavioural standards and professional conduct expected by the company's directors, senior management team and employees.

DIRECTORS' REPORT

The Directors take pleasure in presenting their report and financial statements of the Port of Napier Limited for the year ended 30 September 2018.

PRINCIPAL ACTIVITIES

The Company's principal activities remain the commercial operation of Napier Port. There has been no significant change in the nature of the Company's business during the year.

FINANCIAL RESULTS

The financial statements attached to this report form part of and should be read in conjunction with this report. The Directors consider there are no unusual or other matters, which warrant their comment other than those discussed, and the Company's situation is clearly stated by the financial statements.

The surplus of Port of Napier Limited for the year, after deduction of taxation was \$17.6 million (2017: \$16.7 million).

DIVIDENDS

During the year the 2017 final dividend of \$3.8 million and the 2018 interim dividend of \$6.2 million were paid totalling \$10.0 million.

DIRECTORS

Ms D Puketapu was appointed as a director of the company in December 2017. Mr S Bradford resigned as a director of the Company during July 2018, and Mr T Dawson, Chief Executive, was appointed as a director ex-officio in August 2018.

Mr C Abeywickrama retires by rotation and is not seeking re-election at the Annual Meeting of Shareholders.

REMUNERATION OF DIRECTORS

Remuneration paid to directors during the year was as follows:

A MacLeod (Chairman)	\$88,187
S Bradford (Resigned July 2018)	\$37,323
S Moir (Chair of Audit & Risk Management Committee)	\$47,094
W Harvey (Chair of Health & Safety Committee)	\$47,844
C Abeywickrama	\$44,844
D Puketapu (Appointed December 2017)	\$33,844
J Nichols (Retired December 2017)	\$11,750

Mr T Dawson received no remuneration in his capacity as a director.

REMUNERATION OF EMPLOYEES

The number of employees whose total annual remuneration was within the specified bands is as follows:

\$100,000 - 109,999	28
\$110,000 - 119,999	21
\$120,000 - 129,999	19
\$130,000 - 139,999	15
\$140,000 - 149,999	5
\$150,000 - 159,999	2
\$160,000 - 169,999	1
\$180,000 - 189,999	2
\$190,000 - 199,999	1
\$230,000 - 239,999	1
\$240,000 - 249,999	3
\$250,000 - 259,999	2
\$270,000 - 279,999	3
\$300,000 - 309,999	1
\$340,000 - 349,999	1
\$540,000 - 549,999	1
\$560,000 - 569,999	1

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

DIRECTORS' INTERESTS

The Directors of the Company have declared interests in the following identified entities as at 30 September 2018.

MR A J MACLEOD

Optimal Workshop Limited	Chairman
Silverstripe Limited	Chairman / Shareholder
Hold Fast Investments Limited	Chairman
IHC-Board Appointments Committee	Member
Radium NZ Advisory Board	Member
Silverstripe Trustee Limited	Director
Big Brothers Big Sisters Hawke's Bay	Trustee

MS W HARVEY

Excellence in Business Solutions Limited	Director / Shareholder
Quality Rooding and Services (Wairoa) Limited	Director
Centralines Limited	Director
Electrical Training Company	Director
Hawkes Bay Airport	Director
Tangihanga Joint Venture	Director
Eastern Institute of Technology	Council Member
Fire and Emergency NZ	Director

MR C ABEYWICKRAMA

Netlogix Group Holdings Ltd & subsidiaries /associates	Director / Shareholder
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MR STEPHEN MOIR

The Guardians of NZ Superannuation Fund	Director
Todd Family Office	Director
IJAP Ltd	Director

MS D PUKETAPU

Manawanui in Charge	Chair
Ngati Porou Holding Company & subsidiaries	Director
Tamaki Redevelopment Company & subsidiaries	Director
New Zealand Cricket	Director
New Zealand Olympic Committee	Director
Netball Northern Zone	Director
Amanti Tourism & subsidiary	Director

MR T DAWSON

Napier Port	Chief Executive
Quanto Quanto Ltd	Director / Shareholder
Longburn Intermodal Freight Hub Ltd	Director

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 a breach of a director's fiduciary duty to the company.

USE OF COMPANY INFORMATION

During the year the Board received no notices from directors of the Company requesting to use company information received in their capacity as directors, which would not otherwise have been available to them.

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 Audit Act 2001.

Fees paid to the auditor are disclosed in the financial statements.

PERFORMANCE INDICATORS

As required under Section 16 of the Port Companies Act 1988, performance indicators in the Statement of Corporate Intent are given below:

COMPARISON WITH STATEMENT OF CORPORATE INTENT

	TARGET	2018
Debt to debt plus equity	20-40%	28%
Interest coverage ratio	>3 times	8.9 times
Operating return on assets	13.0%	12.6%
Return on shareholder's funds	8.0%	8.4%



A MACLEOD
CHAIRMAN



S MOIR
DIRECTOR

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 \$000	2017 \$000
Operating income	4	91,749	86,679
Employee benefit expenses		26,352	26,196
Maintenance expenses		9,236	9,053
Other operating expenses	5	17,250	14,076
Operating expenses		52,838	49,325
Profit from operating activities		38,911	37,354
Depreciation, amortisation and impairment expenses	14,15	10,984	11,063
Other (income) and expenses	5	(709)	(114)
Share of loss of equity accounted investee	18	94	141
Profit before finance costs & tax		28,542	26,265
Net finance costs	6	4,107	3,965
Profit before income tax		24,435	22,300
Income tax expense	7	6,859	5,594
Profit for the period attributable to the shareholder of the Company		17,576	16,706

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 \$000	2017 \$000
Profit for the period attributable to the shareholder of the Company		17,576	16,706
Other comprehensive income			
<i>Items that will be reclassified to profit and loss:</i>			
Changes in fair value of cash flow hedges		(1,814)	1,072
Change in fair value of cash flow hedges transferred to profit or loss		1,440	1,437
Deferred tax on changes in fair value of cash flow hedges	8	105	(703)
<i>Items that will not be reclassified to profit and loss:</i>			
Revaluation of sea defences		-	12,629
Deferred tax on revaluation of sea defences	8	-	(3,560)
Total comprehensive income		17,307	27,581

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	\$000 Share Capital	\$000 Revaluation Reserve	\$000 Hedging Reserve	\$000 Retained Earnings	\$000 Total Equity
Balance as at 1 October 2017		21,000	71,077	(3,554)	116,582	205,105
Profit for the period attributable to the shareholder of the Company		-	-	-	17,576	17,576
Changes in fair value of cash flow hedges, net of deferred tax		-	-	(269)	-	(269)
Total comprehensive income		-	-	(269)	17,576	17,307
Dividends	9	-	-	-	(10,000)	(10,000)
Total transactions with the owner in their capacity as owner		-	-	-	(10,000)	(10,000)
Total movement in equity		-	-	(269)	7,576	7,307
Balance as at 30 September 2018	10	21,000	71,077	(3,823)	124,158	212,412
Balance as at 1 October 2016		21,000	62,008	(5,360)	110,576	188,224
Profit for the period attributable to the shareholder of the Company		-	-	-	16,706	16,706
Revaluation of sea defences, net of deferred tax		-	9,069	-	-	9,069
Changes in fair value of cash flow hedges, net of deferred tax		-	-	1,806	-	1,806
Total comprehensive income		-	9,069	1,806	16,706	27,581
Dividends	9	-	-	-	(10,700)	(10,700)
Total transactions with owners in their capacity as owners		-	-	-	(10,700)	(10,700)
Total movement in equity		-	9,069	1,806	6,006	16,881
Balance as at 30 September 2017	10	21,000	71,077	(3,554)	116,582	205,105

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 \$000	2017 \$000
EQUITY			
Share capital	10	21,000	21,000
Reserves	10	67,254	67,523
Retained earnings		124,158	116,582
		212,412	205,105
NON-CURRENT LIABILITIES			
Loans and borrowings	17	80,491	83,571
Deferred tax liability	8	21,848	21,662
Derivative financial instruments	21	3,731	3,563
Provisions for employee entitlements	13	417	371
		106,487	109,167
CURRENT LIABILITIES			
Bank overdraft		109	-
Taxation payable		2,003	2,255
Derivative financial instruments	21	1,579	1,373
Trade and other payables	12	9,369	11,183
		13,060	14,811
		331,959	329,083

The accompanying notes form an integral part of these financial statements.

	Notes	2018 \$000	2017 \$000
NON-CURRENT ASSETS			
Property, plant and equipment	15	309,612	307,189
Intangible assets	14	1,336	1,653
Investment in joint venture	18	850	834
Investment properties	16	7,970	7,285
		319,768	316,961
CURRENT ASSETS			
Cash and cash equivalents		-	231
Trade and other receivables	11	12,191	11,891
		12,191	12,122
		331,959	329,083

On behalf of the Board of Directors, who authorised the issue of these financial statements on 19 November 2018.



A MACLEOD
CHAIRMAN



S MOIR
DIRECTOR

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	2018 \$000	2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Receipts from customers	90,705	83,030
<i>Cash was applied to:</i>		
Payments to suppliers and employees	(50,602)	(48,185)
Interest paid	(4,348)	(4,076)
Taxes paid	(6,820)	(5,209)
Net GST paid	(571)	(374)
	(62,341)	(57,844)
Net cash flows from operating activities	28,364	25,186
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash was provided from:</i>		
Sale of assets	95	110
<i>Cash was applied to:</i>		
Investment in joint venture	(110)	(50)
Acquisition of investment property	-	(3,951)
Acquisition of other assets	(15,589)	(14,723)
	(15,700)	(18,724)
Net cash flows used in investing activities	(15,605)	(18,614)

The accompanying notes form an integral part of these financial statements.

... Statement of Cash Flows continued

	2018 \$000	2017 \$000
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash was provided from:</i>		
Net proceeds from loans and borrowings	-	3,900
<i>Cash was applied to:</i>		
Net repayment of loans and borrowings	(3,100)	-
Dividends paid	(10,000)	(10,700)
	(13,100)	(10,700)
Net cash flows used in financing activities	(13,100)	(6,800)
Net (decrease)/increase in cash balances	(340)	(228)
Cash and cash equivalents at beginning of year	231	459
Cash and cash equivalents at end of year	(109)	231

The accompanying notes form an integral part of these financial statements.

RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	2018 \$000	2017 \$000
Profit after taxation	17,576	16,706
Add non-cash items:		
Fair value gains	(685)	(474)
Depreciation and amortisation	10,849	10,625
Impairment of assets	135	437
Share of loss from investment in joint venture	94	141
Deferred tax	291	(803)
	10,684	9,926
Other adjustments:		
Net loss/(gain) on sale of property, plant and equipment	(24)	217
Increase/(decrease) in non-current provisions	47	15
	23	232
Movements in working capital:		
(Increase)/decrease in current receivables	(300)	(3,965)
Increase/(decrease) in current payables	381	2,287
	81	(1,678)
Net cash inflow from operating activities	28,364	25,186

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

1. REPORTING ENTITY

Port of Napier Limited (“the Company”) is incorporated under the Companies Act 1993 and was created in accordance with the Port Companies Act 1988.

Port of Napier Limited is domiciled in New Zealand and provides and manages port services and cargo handling facilities.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards.

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) and all values are rounded to the nearest thousand dollars (\$'000).

USE OF JUDGEMENTS AND ESTIMATES

In the application of NZ IFRS 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. 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 15)
- Estimation of useful lives and residual values for depreciation expense (note 15)
- Deferred taxes (note 8)

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

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.

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 in hand. Bank overdrafts that are repayable on demand and form an integral part of the Company'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 Company 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. Provisions are measured at the present value or management's best estimate of the amount required to settle the obligation.

FOREIGN CURRENCIES

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 AND PRONOUNCEMENTS NOT YET ADOPTED

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not yet effective. The Company has not yet determined the potential impact of the following standards:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers
- NZ IFRS 16 Leases

NZ IFRS 9 and NZ IFRS 15 will both be effective for the Company's 2019 financial statements and NZ IFRS 16 effective for the Company's 2020 financial statements.

COMPARATIVES

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

	Notes	2018 \$000	2017 \$000
4. REVENUE			
Port operations		89,884	84,587
Property operations		1,865	2,092
Operating income		91,749	86,679

Accounting policies:

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental revenue is accounted for on a straight line basis over the period of the lease term.

5. OTHER INCOME AND EXPENSES

Included within other income and expense are:

Asset retirement expenses		-	143
(Gain)/Loss on sale of property, plant & equipment		(24)	217
Fair value gain on investment property	16	(685)	(474)
Other (income) and expenses		(709)	(114)

Included within other operating expenses are:

Auditor remuneration - audit fees		148	106
Directors' fees		311	308
Operating leases		248	181

Accounting policies:

Lease payments made under an operating lease are charged to the income statement on a straight line basis over the period of the lease.

Notes	2018 \$000	2017 \$000
6. NET FINANCE COSTS		
Interest income	-	(6)
Finance income	-	(6)
Interest expense on borrowings	4,367	4,156
Less interest capitalised to property, plant and equipment	(260)	(185)
Finance expenses	4,107	3,971
Net finance costs	4,107	3,965

7. INCOME TAX

Income tax on the surplus for the year at 28%	6,842	6,244
Adjustment to prior year tax	193	(584)
Tax effect of non-deductible items	17	67
Tax effect of non-assessable items	(193)	(133)
Income tax expense reported in the income statement	6,859	5,594
<i>The income tax expense is represented by:</i>		
Current tax	6,568	6,397
Deferred tax	291	(803)
Income tax expense reported in the income statement	6,859	5,594

	2018 \$000	2017 \$000
8. DEFERRED TAX LIABILITY		
Balance 1 October	(21,662)	(18,203)
Adjustment to prior year provision	-	584
Deferred portion of current year tax expense	(291)	220
Amounts credited and charged direct to equity	105	(4,263)
Balance 30 September	(21,848)	(21,662)
<i>Deferred tax is represented by:</i>		
Property, plant and equipment	(9,342)	(9,136)
Fair value losses on derivatives	1,487	1,382
Revaluation of sea defences	(14,606)	(14,468)
Other	613	560
	(21,848)	(21,662)

IMPUTATION CREDIT ACCOUNT

Balance 30 September	22,514	19,904
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Accounting policies:

Current tax assets and liabilities are measured at the amount expected to be recovered from or payable to the IRD based on the taxable income for the period.

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.

	2018 \$000	2017 \$000
9. DIVIDENDS		
2018 dividend paid - 29.75 cents per share (2017: 33.34 cps)	6,248	7,001
2017 dividend paid - 17.87 cents per share (2016: 17.61 cps)	3,753	3,699
	10,000	10,700

Accounting policies:

Provision is made for dividends when they have been approved by the Board of Directors.

10. CAPITAL AND RESERVES**SHARE CAPITAL**

Issued and paid up

21,000,000 ordinary shares (2017: 21,000,000 shares)	21,000	21,000
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All ordinary shares have no par value, equal voting rights and share equally in dividends and surplus on winding up.

HEDGE RESERVE

	(3,823)	(3,554)
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The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedge instruments, related to hedged transactions that have not yet occurred.

REVALUATION RESERVE

	71,077	71,077
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The revaluation reserve relates to the revaluation of the port sea defences.

	2018 \$000	2017 \$000
11. TRADE AND OTHER RECEIVABLES		
Trade receivables	9,223	8,966
Prepayments	2,968	2,925
	12,191	11,891
<i>The aging of trade receivables at reporting dates is set out below:</i>		
Not past due	7,434	7,238
Past due 0 - 30 days	1,292	1,295
Past due 30 - 60 days	351	158
Past due > 60 days	146	275
	9,223	8,966

The receivables carrying value is equivalent to fair value.

Accounting policies:

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. The carrying value of trade receivables are reduced to the estimated recoverable amount when collection is no longer probable.

12. TRADE AND OTHER PAYABLES

Trade accounts	3,225	5,356
Trade accruals	3,093	2,190
Employee entitlement accruals	3,051	3,637
	9,369	11,183

The accounts payable carrying value is equivalent to fair value.

Accounting policies:

Payables are initially recorded at fair value and subsequently at amortised cost.

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.

	2018 \$000	2017 \$000
13. PROVISIONS FOR EMPLOYEE ENTITLEMENTS		
Balance at beginning of year	371	356
Additional provision made	89	81
Amount utilised	(43)	(66)
Balance at end of year:		
Non-current	417	371

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. INTANGIBLE ASSETS

	Computer Software	Computer Software
COST		
Opening cost	6,330	6,057
Additions	276	273
Closing cost	6,606	6,330
ACCUMULATED AMORTISATION		
Opening balance	4,677	4,146
Amortisation for the period	593	531
Closing balance	5,270	4,677
Closing net book value	1,336	1,653

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 over their estimated useful lives of between 3 to 10 years.

15. PROPERTY, PLANT AND EQUIPMENT

	<i>Port Land</i>	<i>Sea Defences</i>	<i>Site Improvements</i>	<i>Wharves & Jetties</i>	<i>Buildings</i>	<i>Plant & Equipment</i>	<i>Dredging</i>	<i>Work in Progress</i>	<i>Total</i>
COST OR VALUATION									
Opening balance 2017	34,409	76,712	57,574	44,801	27,257	101,884	14,891	5,232	362,760
Additions	-	-	-	-	-	-	-	21,526	21,526
Disposals	-	-	-	-	-	(1,517)	-	-	(1,517)
Transfers	4,246	-	1,322	389	971	2,428	-	(13,580)	(4,224)
Revaluations	-	10,999	-	-	-	-	-	-	10,999
Closing cost/valuation 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)
Impairments	-	-	-	-	-	-	-	-	-
Closing cost/valuation 2018	38,655	87,998	61,754	46,650	28,655	115,458	16,696	6,426	402,292

	<i>Port Land</i>	<i>Sea Defences</i>	<i>Site Improvements</i>	<i>Wharves & Jetties</i>	<i>Buildings</i>	<i>Plant & Equipment</i>	<i>Dredging</i>	<i>Work in Progress</i>	<i>Total</i>
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
Opening balance 2017	-	1,304	18,809	8,085	9,091	33,475	3,878	-	74,642
Depreciation	-	326	1,716	575	703	6,086	689	-	10,095
Impairments	-	-	-	-	52	385	-	-	437
Transfers/disposals	-	-	-	-	-	(1,189)	-	-	(1,189)
Revaluations	-	(1,630)	-	-	-	-	-	-	(1,630)
Closing balance 2017	-	-	20,525	8,660	9,846	38,757	4,567	-	82,355
Depreciation	-	409	1,742	600	698	6,057	751	-	10,256
Impairments	-	-	-	-	-	135	-	-	135
Transfers/disposals	-	-	-	-	-	(622)	556	-	(66)
Closing balance 2018	-	409	22,267	9,260	10,544	44,327	5,873	-	92,680
Closing net book value 2017	38,655	87,711	38,371	36,530	18,382	64,038	10,324	13,178	307,189
Closing net book value 2018	38,655	87,589	39,488	37,390	18,111	71,131	10,822	6,426	309,612

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.

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%.

The fair value measurement has been categorised as a Level 3 fair value (refer note 21) 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. 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 asset 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 Company 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 Company. 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	Floating Plant	30
Wharves and Jetties	10-80	Sea Defences	100-200
Vehicles, Plant and Equipment	3-25	Maintenance Dredging	8
Buildings	10-60		

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 assumption in determining depreciation of sea defences. Management has reassessed the residual values and useful lives applied to sea defences, such that residual values are now estimated to be 25 - 50% of replacement cost, compared to 35 - 50% of replacement cost in the comparative period, resulting in an increase in annual depreciation of \$23,000 per annum.

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.

2018	2017
\$000	\$000

16. INVESTMENT PROPERTIES

Balance at beginning of year	7,285	2,860
Additions	-	3,951
Gain from fair value adjustments	685	474
Balance at end of year	7,970	7,285

Investment properties were independently valued at 30 September 2018 by a registered valuer with relevant experience of the property type and location.

The fair value measurement has been categorised as a Level 3 fair value (refer note 21) based on inputs which are not based on observable market data.

17. LOANS AND BORROWINGS

Bank credit facilities	80,500	83,600
Capitalised loan costs	(9)	(29)
	80,491	83,571

The Company has a multi-option facility with Westpac New Zealand Ltd to an amount of \$65m and expiry date of 30 June 2021. Also, the Company has facility agreements with ASB Bank Limited to an amount of \$55m, expiring 31 October 2019. The Westpac facility gives the Company the option to raise money on the money market, through wholesale advances or a fixed rate advance for all or any part of the commitment expiring on a date no later than the termination date. Security for facilities with banks is by way of a negative pledge over the assets of the Company in respect of both sale of such 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 the loan facility are amortised over the term of the loan.

	2018	2017
	\$000	\$000

18. INVESTMENT IN JOINT VENTURE

Investment in joint venture	850	834
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MOVEMENTS IN THE CARRYING VALUE OF JOINT VENTURE

Opening balance	834	925
Additions	110	50
Share of recognised revenues and expenditure	(19)	(9)
Provision	(75)	(132)
Balance at end of year	850	834

SUMMARISED FINANCIAL INFORMATION OF JOINT VENTURE

Assets	3,453	3,239
Liabilities	(281)	(342)
Net assets 100%	3,172	2,897
Port of Napier Limited share (33.33%)	1,057	966
Provision	(207)	(132)
Balance at end of year	850	834
Revenues	226	226
Net loss after tax	(58)	(28)
Port of Napier Limited share of net loss (33.33%)	(19)	(9)

Longburn Intermodal Freight Hub Limited has been set up as a joint venture to develop a facility at Longburn near Palmerston North to provide container storage and logistics solutions.

Accounting policies:

The Company 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 Company's share of the net assets of the investee.

	2018	2017
	\$000	\$000

19. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH OWNERS

Related Party	Nature of Transactions	Value of Transactions	
Hawke's Bay Regional Council			
	Rates, levies and consents	39	4
	Council services	6	13
	Subvention payment	144	5
	Consultancy contribution	-	1
Hawke's Bay Regional Investment Company			
	Dividends	10,000	10,700
	Subvention payment	177	-
	Consultancy contribution	50	-

The Company is a wholly-owned subsidiary of the Hawke's Bay Regional Investment Company Limited, which is in turn a wholly-owned subsidiary of the Hawke's Bay Regional Council.

The amounts owing to related parties are paid in accordance with the Company's normal commercial terms of trade. No related party debts have been written off or forgiven during the year.

Certain directors of the Company are also directors of other companies with whom the Company 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:

Short-term employee benefits	2,720	2,617
Termination benefits	260	450
	2,980	3,067

20. COMMITMENTS & CONTINGENCIES

Capital expenditure commitments

At balance date there were commitments in respect of contracts for plant capital expenditure totalling \$399,000 (2017: 1,514,000).

Operating lease commitments

At balance date the Company had the following operating lease commitments:

	2018 \$000	2017 \$000
Payable within one year	250	232
Between one and two years	250	232
Between two and five years	651	670
Over five years	160	300
	1,311	1,434

Contingent liabilities

There were no material contingent liabilities at balance date (2017: Nil).

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

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

Accounting policies:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in the income statement. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity through the hedging reserve. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecasted transaction occurs. The gain or loss relating to any ineffective portion of the hedge is recognised immediately in the income statement.

CREDIT RISK

In the normal course of its business the Company incurs credit risk from accounts receivable, bank balances and interest rate swap agreements. There is no significant concentration of credit risk and the Company 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 Company's maximum credit risk exposure are as disclosed in the statement of financial position and collateral or other security is not held.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company'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 Company'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

	<i>Carrying Amount</i>	<i>Cash flows To Maturity</i>	<i>Less than 1 Year</i>	<i>1 - 2 Years</i>	<i>2 - 5 Years</i>	<i>More than 5 Years</i>
	\$000	\$000	\$000	\$000	\$000	\$000
2018						
Trade and other payables	3,225	3,225	3,225	-	-	-
Bank 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	-	-	-
	89,026	93,906	6,251	44,830	40,590	2,235
2017						
Trade and other payables	5,356	5,356	5,356	-	-	-
Bank borrowings	83,571	88,298	2,433	25,523	60,342	-
Interest rate swaps	4,932	5,095	671	554	1,986	1,884
Forward exchange contracts	4	1,315	1,315	-	-	-
	93,863	100,064	9,775	26,077	62,328	1,884

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company'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.

INTEREST RATE RISK

The Company utilises interest rate caps and swaps to manage interest rate exposures for future periods. As at reporting date the notional principal amounts (including forward starting swaps), and the expiry period of the contracts, are as follows:

	2018 \$000	2017 \$000
Less than 1 Year	20,000	24,000
1 - 2 Years	20,000	20,000
2 - 3 Years	2,000	20,000
Greater than 3 Years	62,500	64,500
	104,500	128,500

INTEREST RATE SENSITIVITY ANALYSIS

At reporting date, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would increase/(decrease) post tax 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
Variable rate loans	(805)	805	-	-
Interest rate swaps	545	(545)	2,323	(2,193)
30 September 2018	(260)	260	2,323	(2,193)
Variable rate loans	(836)	836	-	-
Interest rate swaps	485	(485)	2,597	(2,778)
30 September 2017	(351)	351	2,597	(2,778)

CURRENCY RISK

The Company undertakes transactions denominated in foreign currencies from time to time and exposure in foreign currencies arises from these activities. It is the Company'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 exchange contracts are recognised in the statement of financial position at their fair value. The effective portion of the changes in the fair value of foreign exchange contracts is initially recognised in the hedging reserve, and subsequently transferred to the income statement at the point at which the hedged future transaction occurs. Any ineffective portion of foreign exchange contracts is recognised immediately in the income statement.

The summary of foreign exchange instruments outstanding at balance date and the contracted terms are as follows:

FOREIGN EXCHANGE CONTRACTS MATURITY ANALYSIS

	NZD Amount \$000	Currency Amount \$000	Less than 1 Year \$000
2018			
USD	454	309	454
2017			
EUR	1,315	843	1,315

FOREIGN EXCHANGE SENSITIVITY ANALYSIS

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 2018	-	-	(30)	64
30 September 2017	-	-	(118)	144

	2018 \$000	2017 \$000
CREDIT FACILITIES		
<i>At balance date the Company had bank facilities of:</i>		
Overdraft	1,000	1,000
Credit facilities	120,000	107,500
Total	121,000	108,500
<i>At balance date the utilisation of bank facilities was:</i>		
Overdraft	109	-
Credit facilities	80,500	83,600
Total	80,609	83,600
FINANCIAL ASSETS AND LIABILITIES		
<i>Loans and receivables at amortised cost</i>		
Cash	-	231
Receivables	9,223	8,966
Total financial assets	9,223	9,197
<i>Financial liabilities at fair value</i>		
Interest rate swaps	5,323	4,932
Forward foreign exchange contracts	(13)	4
	5,310	4,936
<i>Financial liabilities at amortised cost</i>		
Overdraft	109	-
Trade payables	3,225	5,356
Loans	80,491	83,571
	83,824	88,927
Total financial liabilities	89,134	93,863

The carrying value of all financial assets and liabilities is equal to the 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 Company'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 Company defines as total shareholder's equity, so as to maintain shareholder and banker confidence and to sustain the future development of the Company. The Company 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 Company is required to comply with certain financial covenants in respect of external borrowings namely that a minimum interest cover is maintained, minimum shareholder's funds as a percentage of total tangible assets, and maximum debt in relation to earnings before interest, tax, depreciation and amortisation. The Company has met all covenants throughout the reporting period.

FINANCIAL SUMMARY

	Statement of Corporate Intent Target	2018	2017	2016	2015	2014	2013	2012
Total Cargo (million tonnes)		5.09	4.75	3.92	4.07	4.11	3.99	3.71
Container Volumes (TEU)		266,006	288,444	257,380	256,438	220,048	206,272	204,065
Revenue (\$m)		91.7	86.7	72.7	72.1	67.0	62.1	60.3
Operating Profit* (\$m)		38.9	37.4	30.4	29.7	29.3	27.0	25.4
Net Profit After Tax (\$m)		17.6	16.7	11.5	12.9	13.4	11.8	11.1
Dividends (\$m)		10.0	10.7	7.9	7.4	7.0	6.1	5.9
Capital Investment (\$m)		15.7	18.7	10.5	35.1	19.2	20.9	9.5
Net Debt (\$m)		80.6	83.3	79.2	84.3	62.8	60.1	51.2
Debt to Debt plus Equity %	20-40%	28%	29%	30%	31%	25%	25%	23%
Interest Coverage Ratio	>3 times	8.9	9.0	6.8	6.5	7.9	7.7	6.6
Return on Operating Assets %**	13%	12.6%	12.5%	10.5%	10.8%	11.5%	11.1%	12.8%
Return on Shareholder's Funds %***	8%	8.4%	8.5%	6.1%	7.0%	7.4%	6.8%	8.1%

* Profit from operating activities before interest, tax, depreciation & amortisation, other income & expenses, and joint venture results

** Operating profit divided by average non-current assets used in operations

*** Net profit after tax divided by average shareholder's funds



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF PORT OF NAPIER LIMITED

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

OPINION

We have audited the financial statements of the company on pages 62 to 89, that comprise the statement of financial position as at 30 September 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the company:

- present fairly, in all material respects:
 - its financial position as at 30 September 2018; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 20 November 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, other information included in the annual report, and we explain our independence.

BASIS FOR OUR OPINION

We carried out 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 Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Port Companies Act 1988.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

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

- We identify and assess the risks of material misstatement of the 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We 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 company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of 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 company'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 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 company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with the Board of 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.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information to be included in the Annual Report, but does not include the financial statements, and our auditor's report thereon. We have obtained the Corporate Governance statement and Directors' Report contained on pages 56 to 61 prior to the date of this auditor's report.

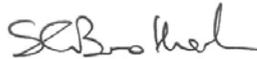
Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work we have performed on the other information obtained prior to the date of this report, 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.

INDEPENDENCE

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

We provide market remuneration information to the company. We have no other relationship with, or interests in, the company.



SIMON BROTHERTON
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 ON BEHALF OF THE AUDITOR-GENERAL
 AUCKLAND, NEW ZEALAND

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 on behalf of the Auditor-General

DOCUMENT ENVIRONMENTAL CREDENTIALS

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.

