

STANDING STRONG WITH OUR REGION

2020 HALF YEAR REPORT • 26 MAY 2020

HE TOKA TŪ MOANA – A ROCK STANDING FIRM IN THE SEA

Tēnā koutou e ngā kaiwhakarato moni
– greetings investors

Napier Port's positive financial results for the half year to the end of March 2020 stand in stark contrast to the significant challenges that we, the surrounding region and the broader economy face as a result of the COVID-19 pandemic.

For most of the six-month period that these results cover, trade has been trending largely in line with the expectations set when we launched our initial public offer (IPO) in August 2019.

However, as the half year drew to a close, and COVID-19 infections both offshore and in New Zealand rose, the Government imposed its state of national emergency and Alert Level 4 lockdown. It also became clear the pandemic and lockdown would have a material impact on our region and Napier Port's financial result for the year.

"Napier Port is a long-term infrastructure asset and an essential lifeline asset during times of national emergency supporting the economic health and prosperity of Hawke's Bay and the surrounding regions."

HALF YEAR HIGHLIGHTS¹

135

THOUSAND TEU
CONTAINER VOLUMES
– UP 7.5%

1.6

MILLION TONNE
BULK CARGO
VOLUMES – DOWN 7.3%

\$21.7

MILLION
RESULT FROM
OPERATING
ACTIVITIES²
– DOWN 1.6%

\$11.2

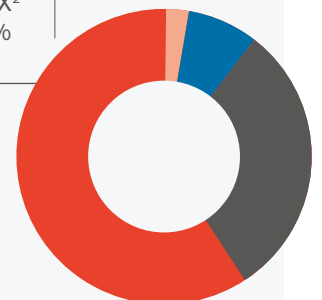
MILLION
PRO FORMA
NET PROFIT
AFTER TAX²
– UP 6.7%

\$52.3

MILLION
REVENUE
– UP 7.5%

HY2020 REVENUE

■ Container Services	\$30.9m
■ Bulk Cargo	\$16.0m
■ Cruise	\$4.2m
■ Other	\$1.2m



¹ – 6 months to 31 March 2020. ² – Result from operating activities and Pro forma NPAT are alternative non-NZ GAAP measures. Refer to the Notes to the 2019 Annual Consolidated Financial Statements and the Supplemental Selected Financial Information for further information.



To view the complete half year financial statements visit:
napierport.co.nz/half-year-financial-statements-2020

FIRST HALF RESULTS

Revenue for the half year to 31 March 2020 increased 7.5% to \$52.3 million from \$48.7 million last year, underpinned by an increase in container volume, growth in cruise revenue, and previously announced tariff increases.

Container services benefited from the early repositioning of empty containers ahead of the peak primary export season. Volumes rose 7.5% to 135K TEU from 126K TEU in the same period a year ago. This increase helped to lift container services revenues by 12.1% to \$30.9 million from \$27.6 million. Average revenue per TEU increased 4.2% to \$229 per TEU from \$219 per TEU, assisted by increased volume through our Port Pack operation and tariffs introduced during 2019 to recover costs of infrastructure investments made to extend capacity and support our growth.

Even though the cruise season came to an abrupt and early end following the COVID-19 outbreak, cruise services revenue for the first half was up 22.5% to \$4.2 million from \$3.4 million. This reflected an increase in ship visits to 76 ships from 66 ships in the prior season, albeit short of the 87 ships we had booked. A new passenger levy also helped to lift revenue.

Despite a strong first quarter in log exports, we ended the half-year to March down 5% on the same period a year ago as the impact of high Chinese log inventories were compounded by the COVID-19 outbreak and extended Chinese new year holiday, suppressing demand for NZ log exports. Fertiliser imports were, as we expected, lower. As a direct result bulk cargo revenue fell 3.5% to \$16.0 million from \$16.5 million.

The result from operating activities fell 1.6% to \$21.7 million from \$22.1 million, as operating expenses increased in line with expectations to support growth and build operational resilience. Employee benefit expenses increased with employee numbers. Other operating expenses increased in line with container volumes, higher insurance costs, and listed company costs.

Pro forma net profit after tax for the half year rose to \$11.2 million from \$10.5 million. The pro forma result excludes a one-off non-cash deferred tax gain of \$1.5 million related to the deductibility of tax depreciation on buildings. This gain helped lift statutory net profit after tax to \$12.8 million from \$9.2 million in the prior year.

The statutory net profit after tax for the half-year also benefited from finance cost savings when compared to the prior year, following the repayment of all borrowings following the successful IPO in the second half of 2019. In the same period a year ago, Napier Port expensed finance costs of \$2.0 million.

COVID-19 IMPACT

OPERATIONS

The move in late March to the Alert Level 4 COVID-19 lockdown, saw Napier Port make dramatic changes to its operations.

We had a duty as a 'lifeline asset' to protect the flow of essential cargo through Napier Port. At the same time, we had to protect our people, deemed 'essential workers', and take steps to prevent the inadvertent transmission of the virus within the community.

The changes we put in place to achieve these goals (see below) have been effective, but they came at the cost of productivity and revenue. The cruise season was prematurely closed. Meanwhile, in line with government directives, we saw a sharp reduction in non-essential cargo arriving, the most significant of which was in the key export trades of logs, pulp and timber.

We were also required to cease construction work on 6 Wharf, the centrepiece of our strategic investment programme, as its construction was not considered an essential service.

The implementation of the Level 4 lockdown reduced expected cargo through Napier Port to levels lower than those assumed in our financial forecasts, with a material impact on our financial outlook for the 2020 financial year. In response, we regretfully joined many NZX listed companies in withdrawing our full year earnings forecasts.

CARGO FLOWS

Fortunately, many of our key trades qualified within the Government's definition of essential services and these continued to flow to Napier Port during the Level 4 lockdown.

Harvesting of apples, squash and other fresh produce has continued despite the additional operational challenges for our exporters. Similarly, the region's food and meat processing industries have continued production and their products have been flowing right through this period of uncertainty, with Hawke's Bay's primary food-based exports seeing continued demand.

Post the lifting of the Level 4 lockdown, exporters of forest products have quickly resumed and ramped up their production to meet pent up demand. Containerised trades such as the wood pulp and milled timber are up and running again and working to fulfil back orders and forecast demand. A partial revival of economic activity and some clearing of inventories in the key market of China has also seen improvement in log prices into April.

COVID-19 RESPONSE

To help manage the economic impact on our business of the COVID-19 pandemic we have identified a number of measures to prudently protect our cashflow and protect our balance sheet in light of our commitments related to the construction of 6 Wharf and our determination to look after our people.

Key measures identified for implementation in the period to the end of September 2021 include:

- Reduction of 20% in the director fee pool³ for 6 months
- Deferral on renewal of wage and salary increases for one year
- Specific cost reductions and deferrals across capital and operational expenditure
- Receipt of the Government Wage subsidy⁴
- Cancellation of the interim dividend in respect of the 2020 financial year.

These measures are expected to reduce and defer cash spend during the 2020 and 2021 financial years. However, the timing and savings accruing from these measures are being worked through. None of these measures will affect our core operational capability nor degrade the condition of our key assets.

BALANCE SHEET & CAPITAL EXPENDITURE

Napier Port retains a strong balance sheet following its capital raising in the prior year. At the end of the half-year, cash and cash equivalents stood at \$16.1 million, down from the \$31.2 million at the end of the last financial year. In addition, we have undrawn bank facilities of \$180 million, the majority of which mature in 2024.

Over the six-month period Napier Port invested \$23.2 million in capital assets with \$8 million⁵ spent on 6 Wharf. Other projects included the commissioning of a third tug, Kaweka, the continued development of our off-port depot site in Thames Street, Napier, and replacement wharf maintenance, maintenance dredging, paving works and replacement of mobile plant.

We remain committed to the strategic investment programme. These are long-term solutions that will allow us to capitalise on future long-term growth opportunities and continue to support our customers and therefore our wider Hawke's Bay region.

DIVIDEND

The board of directors has considered both the short-term impacts and long-term risk associated with COVID-19 in considering the interim dividend. With a full programme of committed strategic capital investments, including 6 Wharf, the board considers that it is prudent to take a conservative approach to the management of cash whilst this uncertainty exists. As such, the board has decided to defer any consideration of dividend payments until the end of the financial year. As a result, the decision has been made to cancel the interim dividend.

We recognise the impact this decision may have on our shareholders and remain grateful of your support as we navigate these difficult times and focus on protecting and growing the long-term value of your asset.

The board expects to review the full financial year result and outlook in November 2020 before making a decision on a final dividend. The board's intent is to pay a final dividend in respect of the 2020 financial year result, in accordance with our stated dividend policy, subject to developments and the economic outlook at that time.

STRATEGIC INITIATIVES

In spite of the challenges we have faced with the COVID-19 pandemic we are pleased with progress on the strategic initiatives over the first six-month period.

Even though construction work on 6 Wharf ceased during the Level 4 lockdown, we have made good initial progress on the project. We formally appointed HEB to build the wharf in November, completed site establishment and began procurement of materials before Christmas.

In the new year we started sheet metal piling and removed the existing rock wall and made a start on piling before work ceased following the imposition of the Level 4 lockdown. Work resumed late in April when the country transitioned to Level 3, while dredging is due to commence this month.



Kaweka, which arrived last November, joins our existing tugs *Te Mata* and *Ahuriri*. It has already contributed to our ability to service vessels, including larger vessels, helped reduce vessel congestion and delays, improved berth availability, and provided risk mitigation enabling us to maintain our marine services if one of our other tugs is out of service.

Finally, in March we opened our second off port container depot in Thames Street for processing of empty containers. We have relocated our container wash, inspection services, and refrigerated container pre-tripping to that site providing further enhanced services to our customers in the region.

PEOPLE

Our first response to the COVID-19 outbreak, in line with our 'culture of care', the foundation of our strategy, was to take immediate steps to protect our people and others accessing our port.

Marine personnel staff, as essential workers on the front line of the virus response, were issued with extended PPE and hygiene kits. Critical teams were separated across Napier Port to minimise contact, while all visitors were restricted. Office based staff commenced working from home or alternate locations where practical.

We also worked with our people to safeguard their family and others in their bubbles from inadvertent transmission, and introduced other measures to help manage stress and improve the wellbeing of our people.

Napier Port's people – as they have many times before – have risen to the challenge. Despite the imposition of the new social distancing, they have continued to apply themselves for the good of our customers and the broader region.

The board and management team thanks them for their loyalty and dedication during this time of unprecedented uncertainty.

3 – Consisting of a reduction of 10% paid to existing directors and 10% from deferring the appointment of an additional director. 4 – A wage subsidy payment of \$2 million has been received in anticipation of a forecast decline in revenue of at least 30% versus the prior year comparative month due to the impact of COVID-19. In the event a 30% decline does not in-fact eventuate, Napier Port intends to repay the subsidy amount. No benefit to Napier Port will be recognised until the decline has been confirmed. 5 – \$8 million cash spend on 6 Wharf excluding accounting accruals.

“Our first response to the COVID-19 outbreak, in line with our ‘culture of care’, the foundation of our strategy, was to take immediate steps to protect our people and others accessing our port.”

LOOKING FORWARD

The future trade outlook and the timing of the revival of the cruise industry remains uncertain and is now dependent upon COVID-19 public health developments, and the economic impact in New Zealand and key international trading markets, both in the short and longer-term.

Napier Port continues to engage with cargo owners to understand how COVID-19 trading conditions are affecting them and the expected outlook for cargo volumes through Napier Port.

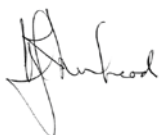
We intend to provide a further interim update to the NZX market regarding our June quarter trading results during August. We expect at that time to update the market on full year earnings guidance, if not available earlier.

Napier Port is a long-term infrastructure asset and an essential lifeline asset during times of national emergency supporting the economic health and prosperity of Hawke’s Bay and the surrounding regions. As we look to the future, we remain focused on supporting and working with our customers and our region and continuing to operate as an agile and resilient gateway to world markets.

We have great confidence in our ability to extend our long record of success, aided by the resilience and commitment of our people, and the determination we share with our customers to build a thriving region.

We are a rock standing firm in the sea.

Ngā manaakitanga,



ALASDAIR MACLEOD
Chairman



TODD DAWSON
Chief Executive



TRADE AND FINANCIAL SUMMARY⁶

	1H20	1H19	FY19	FY18	FY17
Total Cargo (million tonnes)	2.53	2.66	5.46	5.09	4.75
Container volumes (TEU 000)	135	126	271	266	288
Buk Cargo (million tonnes)	1.60	1.72	3.40	3.07	2.51
Revenue (\$m)	52.3	48.7	99.6	91.7	86.7
Result from operating activities ⁷ (\$m)	21.7	22.1	42.0	38.9	37.4
Net Profit After Tax (\$m)	12.8	9.2	6.8	17.6	16.7
Dividends (\$m)	5.0	4.0	54.0	10.0	10.7
Capital Investment (\$m)	23.2	7.5	17.6	15.7	18.7
Net Debt (\$m)	-	80.8	-	80.6	83.3

6 – Data prior to FY2019 refers to Port of Napier Limited. 7 – Profit from operating activities before interest, tax, depreciation, amortisation and impairments, other income & expenses, joint venture results, and IPO transaction costs

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KEY DATES:

FY 2020 third quarter results announcement: August 2020

FY 2020 year end: 30 September 2020

FY 2020 year end results announcement: November 2020

Annual meeting: December 2020

FY 2021 half year end: 31 March 2021

FY 2021 half year announcement: May 2021