Napier Port Holdings Limited Prospective Financial Information, reconciliation of non-NZ GAAP information and supplementary financial information

PART A: PROSPECTIVE FINANCIAL INFORMATION

The prospective financial statements of Napier Port Holdings Limited (**Napier Port Holdings**) comprise the following Prospective Financial Information (**PFI**) and other PFI related information for the financial years ending 30 September 2019 and 30 September 2020.

- Basis of preparation and presentation;
- Prospective Consolidated Statement of Comprehensive Income;
- Prospective Consolidated Statement of Changes in Equity;
- Prospective Consolidated Statement of Financial Position;
- Prospective Consolidated Statement of Cash Flows;
- A description of the general and specific assumptions in preparing the PFI; and
- An analysis of the sensitivity of the PFI to changes in specific key assumptions.

This document should be read in conjunction with Napier Port Holdings' Product Disclosure Statement (**PDS**) dated 15 July 2019 and other information provided on the Offer Register (www.business.govt.nz/disclose OFR12679).

Financial information is presented in New Zealand dollars and is rounded to the nearest thousand dollars (unless otherwise stated), which may result in some discrepancies between the sum of components and the totals shown within tables, and also in percentage calculations.

Capitalised terms used but not defined in this document have the same meaning as the terms defined in the PDS.

1.0 BASIS OF PREPARATION AND PRESENTATION

The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42 - Prospective Financial Statements, as required by clause 53(1)(c) of Schedule 3 to the Financial Markets Conduct Regulations 2014.

The PFI, and underlying assumptions, have been prepared by management and approved by Napier Port's Board specifically for the purpose of an Initial Public Offer of shares in Napier Port Holdings. The Directors have given due care and attention to the preparation of the PFI and authorised the PFI as at 15 July 2019 for the purposes stated above. It is based on the Directors' assessment of events and conditions existing at the date of the PDS, the accounting policies and best estimate assumptions set out in Section 3 below. The PFI may not be suitable for any other purpose.

PFI, by its nature, is inherently uncertain. It involves predictions of future events that cannot be assured as well as risk and uncertainties which are beyond the control of Napier Port. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management thereof may influence the success of Napier Port's business - with specific reference to Section 8 (*Risk's to Napier Port's business and plans*) of the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI.

The prospective consolidated statements of comprehensive income, prospective consolidated statements of changes in equity and prospective consolidated statements of cash flows cover the prospective periods, comprising the 12 months ending 30 September 2019 (**FY2019F**) and the 12 months ending 30 September 2020 (**FY2020F**) (collectively, the **Prospective Period**). The prospective consolidated statements of financial position are presented as at 30 September 2019 and 30 September 2020.

The FY2019F period also includes pro forma adjustments. Therefore FY2019 will be referred to as FY2019F for statutory purposes and FY2019PF when discussing pro forma. Pro forma adjustments are detailed in Part C (*Description of pro forma adjustments*).

Common Control Transaction

The proposed transaction involves the acquisition of 100% of the share capital of Port of Napier Limited (**Port of Napier**) by Napier Port Holdings from Hawke's Bay Regional Investment Company Limited (**HBRIC**) on 15 July 2019. This constitutes a transaction under common control as both entities are ultimately controlled by the same party and as such the transaction is not in the scope of NZ IFRS 3 Business Combinations. On that basis, the difference between the consideration paid to HBRIC and the net assets of Port of Napier on the date of the transaction is recorded as a business reorganisation reserve in equity. The PFI has been prepared as if Napier Port Holdings and Port of Napier were consolidated for all of the relevant periods. Historical information presented in this document for FY2016 to FY2018 relates to Port of Napier as Napier Port was incorporated only shortly before lodgement of the PDS and has not conducted any business prior to acquiring Port of Napier.

1.1 FY2019 PFI: ACTUAL RESULTS AND FORECAST RESULTS

The PFI for the 12 months ending 30 September 2019 comprises six months of actual trading results for the period ended 31 March 2019 and six months forecast trading results for the period ending 30 September 2019. While the FY2019F forecast does not include the actual trading results for the months of April 2019 to June 2019, the actual operating results for these months are known at the date of the PDS and are materially consistent with the forecasts for those months.

Section 3.3 (Specific assumptions) includes disclosures and commentary relating to both the pro forma PFI and the PFI.

1.2 FUTURE REPORTING

The Directors are responsible for, and have authorised the issue of, the PFI on 15 July 2019. There is no present intention to update the PFI or to publish prospective financial information in the future, other than as required by law. Napier Port Holdings will present a comparison of the PFI with actual financial results in its FY2019 and FY2020 annual reports, as required by Regulation 64 of the Financial Markets Conduct Regulations 2014.

1.3 NON-NZ GAAP INFORMATION AND PRO FORMA FINANCIAL INFORMATION

The PFI includes items that are considered non-NZ GAAP financial information, including profit measures other than net profit after tax. This section also presents the pro forma consolidated Prospective Statement of Comprehensive Income for the Prospective Periods. Napier Port believes this pro forma prospective financial information more closely reflects the post Listing capital structure and provides a better basis for investors to compare the prospective financial information with the historical financial information.

The FY2019PF pro forma financial information adjusts the statutory FY2019F PFI by:

1. Excluding offer costs, being those one-off costs incurred in relation to the Offer that have been expensed;
2. Adopting the new capital structure of Napier Port following completion of the Offer, assuming the listing occurred on 1 October 2018 (i.e. to show the pro forma impact on FY2019F); and
3. Including incremental listed company costs that will be incurred by Napier Port on an ongoing basis, assuming the listing occurred on 1 October 2015 (i.e. the adjustment provided for a full year impact of those costs on FY2019F, as well as the Historical Periods).

A description and reconciliation of each pro forma adjustment to NZ GAAP financial information is set out in Part B (*Reconciliation of non-NZ GAAP financial information*).

2.0 PROSPECTIVE FINANCIAL STATEMENTS

2.1 PROSPECTIVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NZ$000	FY2019F	FY2020F
Financial period	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Revenue from Port Operations	95,410	100,425
Revenue Other	1,948	2,109
Operating income	**97,358**	**102,533**
Employee benefit expenses	(28,401)	(31,708)
Maintenance expenses	(8,810)	(9,082)
Other operating expenses	(26,185)	(20,863)
IPO costs	(7,339)	-
Listed Company Costs	(594)	(1,620)
Operating expenses	**(63,396)**	**(61,653)**
Profit from operating activities	**33,961**	**40,880**
Depreciation, amortisation and impairment expenses	(11,680)	(12,947)
Other income	25	-
Share of loss and impairment of joint venture	(1,119)	(120)
Profit before finance costs & tax	**21,187**	**27,814**
Finance income	139	111
Finance expenses	(10,575)	(50)
Net finance costs	**(10,436)**	**61**
Profit before income tax	**10,751**	**27,874**
Income tax expense	(5,157)	(7,901)
Profit for the period attributable to the shareholders of the Company	**5,594**	**19,973**
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes in fair value of cash flow hedges	(2,095)	-
Change in fair value of cash flow hedges transferred to profit or loss	7,405	-
Net deferred tax on changes in fair value of cash flow hedges	(1,487)	-
Items that will not be reclassified to profit or loss:		
Deferred tax on revaluation of sea defences	4,374	-
Total comprehensive income	**13,792**	**19,973**

2.2 PROSPECTIVE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NZ$000	Share Capital	Revaluation Reserves	Hedging Reserve	Reorganisation reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
Balance as at 1 October 2018	**21,000**	**71,077**	**(3,823)**	**-**	**-**	**124,158**	**212,412**
Profit for the period attributable to the shareholder of the Company	-	-	-	-	-	5,594	5,594
Changes in fair value of cash flow hedges, net of deferred tax	-	-	3,823	-	-	-	3,823
Deferred tax on sea defences	-	4,374	-	-	-	-	4,374
Total comprehensive income	**-**	**4,374**	**3,823**	**-**	**-**	**5,594**	**13,791**
Business reorganisation	(21,000)	-	-	(221,362)	-	(74,799)	(317,161)
Costs capitalised to equity	(5,561)	-	-	-	-	-	(5,561)
Contributions from shareholders	487,001	-	-	-	-	-	487,001
Share based payments	(1,686)	-	-	-	448	-	(1,238)
Pre IPO dividends	-	-	-	-	-	(53,958)	(53,958)
Total transactions with the owner in their capacity as owner	**458,754**	**-**	**-**	**(221,362)**	**448**	**(128,756)**	**109,084**
Total movement in equity	**458,754**	**4,374**	**3,823**	**(221,362)**	**448**	**(123,162)**	**122,875**
Balance as at 30 September 2019	**479,754**	**75,451**	**-**	**(221,362)**	**448**	**997**	**335,288**
Balance as at 1 October 2019	479,754	75,451	-	(221,362)	448	997	**335,288**
Profit for the period attributable to the shareholder of the Company	-	-	-	-	-	19,973	**19,973**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**19,973**	**19,973**
Share based payments	(316)	-	-	-	56	-	(260)
Dividends	-	-	-	-	-	(10,960)	(10,960)
Costs capitalised to equity	(1,096)	-	-	-	-	-	(1,096)
Total transaction with the owner in their capacity as owner	**(1,411)**	**-**	**-**	**-**	**56**	**(10,960)**	**(12,315)**
Total movement in equity	**(1,411)**	**-**	**-**	**-**	**56**	**9,013**	**7,657**
Balance as at 30 September 2020	**478,343**	**75,451**	**-**	**(221,362)**	**504**	**10,010**	**342,945**

2.3 PROSPECTIVE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NZ$000	FY2019F	FY2020F
Financial period	As at 30 Sept 19	As at 30 Sept 20
Equity		
Share capital	479,754	478,343
Reserves	(145,464)	(145,408)
Retained earnings	997	10,010
Total equity	**335,288**	**342,945**
Non-current liabilities		
Loans and borrowings	-	32,378
Deferred tax liability	18,554	18,780
Lease Liability	734	521
Provisions for employee entitlements	474	474
Total non-current liabilities	**19,762**	**52,154**
Current liabilities		
Taxation payable	3,162	400
Lease liability	200	213
Trade and other payables	12,368	13,762
Total current liabilities	**15,731**	**14,374**
Total liabilities and equity	**370,781**	**409,473**
Non-current assets		
Property, plant and equipment	326,305	385,484
Intangible assets	1,555	1,819
Investment properties	7,970	7,970
Total non-current assets	**335,830**	**395,274**
Current assets		
Cash and cash equivalents	20,069	-
Trade and other receivables	14,882	14,200
Total current assets	**34,951**	**14,200**
Total assets	**370,781**	**409,473**

2.4 PROSPECTIVE CONSOLIDATED STATEMENT OF CASH FLOWS

NZ$000	FY2019F	FY2020F
Financial period	12 months ending 30 Sept 19	12 months ending 30 Sept 20
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	95,952	102,948
Cash was applied to:		
Payments to suppliers & employees	(55,975)	(61,113)
Offer Costs	(7,339)	-
Interest paid	(4,020)	(1,452)
Taxes paid	(4,404)	(10,437)
Net cash flows from operating activities	**24,213**	**29,945**
Cash flows from investing activities		
Cash was provided from:		
Sale of assets	25	-
Cash was applied to:		
Investment in joint venture	(220)	(120)
Acquisition of other assets	(24,803)	(69,701)
Net cash flows used in investing activities	**(24,998)**	**(69,821)**
Cash flows from financing activities		
Cash was provided from:		
Net proceeds from loans and borrowings	14,412	58,628
Proceeds from issuance of ordinary shares	219,151	-
Cash was applied to:		
Net repayment of loans and borrowings	(102,084)	(26,450)
ESOP Share Capital	(1,686)	(316)
Pre IPO dividends paid	(53,958)	-
Post IPO dividends paid	-	(10,960)
Repayment of shareholder loan	(49,312)	-
One-off IPO Costs - Equity	(5,561)	(1,096)
Net cash flows used in financing activities	**20,963**	**19,807**
Net (decrease)/increase in cash balances	**20,178**	**(20,069)**
Cash and cash equivalents at beginning of year	(109)	20,069
Cash and cash equivalents at end of year	**20,069**	**0**

3.0 ASSUMPTIONS UNDERLYING PROSPECTIVE FINANCIAL INFORMATION

This section provides an overview of the principal assumptions on which the PFI has been prepared. These assumptions should be read in conjunction with the risk factors set out in Section 8 (*Risks to Napier Port's business and plans*) of the PDS as well as the sensitivity analysis presented later in this document.

3.1 ACCOUNTING POLICIES

Napier Port has applied consistent accounting policies throughout the prospective period, based on Napier Port's historical accounting policies presented in the audited financial statements for the year ended 30 September 2018, which can be found on the Offer Register (www.business.govt.nz/disclose, OFR 12679).

Other than as described in section 3.1.1 of this document, there are no anticipated changes to accounting standards under NZ GAAP that are expected to materially affect Napier Port during the Prospective Periods.

3.1.1 ACCOUNTING STANDARDS ADOPTED DUE TO THE TRANSACTION

As a result of the Offer, Napier Port is required to make disclosures for the following accounting standards.

NZ IAS 33 Earnings per Share

As a result of being a public issuer, Napier Port is required to consider the disclosure requirements of NZ IAS 33 which will result in Napier Port disclosing earnings per share (**EPS**). EPS is a ratio that is widely used by financial analysts, investors and other users to gauge an entity's profitability and to value its shares. Its purpose is to indicate how effective an entity has been in using the resources provided by the ordinary shareholders, and to assess the entity's current net earnings. EPS also forms the basis for calculating the 'price-earnings ratio', which is widely used by investors and analysts to value shares.

EPS is a ratio of the earnings to the weighted average number of ordinary shares (basic EPS). In addition to basic EPS, diluted EPS is disclosed to illustrate the impact to EPS if all dilutive instruments were converted, exercised or issued to ordinary shares.

NZ IFRS 8 Operating Segments

As a result of being a public issuer, Napier Port is required to consider the disclosure requirements of NZ IFRS 8. Napier Port operates in one reportable segment being Port Services. Within the Port Services reportable segment there are five operating segments. As a result of assessing the relevant criteria, management have formed the judgement that the operating segments are permitted to be aggregated into one reportable segment.

3.1.2 NEW ACCOUNTING POLICIES

Napier Port has adopted the new accounting policies which are outlined in this section from 1 October 2018, being the beginning of FY2019F, which impact the PFI.

NZ IFRS 9 Financial instruments

Napier Port has adopted NZ IFRS 9 for the financial year beginning on 1 October 2018, being FY2019F.

NZ IFRS 9 impacts the classification and measurement of Napier Port's financial instruments and requires certain additional disclosures.

NZ IFRS 9 simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss can now be presented within other comprehensive income. NZ IFRS 9's new impairment model is a move away from NZ IAS 39's incurred credit loss approach to an expected credit loss model. This may result in earlier recognition of impairment losses.

Napier Port has concluded that there will be no material impact to the financial statements following the application of NZ IFRS 9.

NZ IFRS 15 Revenue from Contracts with Customers

Napier Port has adopted NZ IFRS 15 for the financial year beginning on 1 October 2018, being FY2019F.

The key outcomes as a result of adoption of NZ IFRS 15 are:

- There is no quantitative impact to revenue recognition;
- The performance obligations identified relate to Port Services. Port Services are a series of distinct performance obligations for the provision of marine, berthage and port infrastructure services to Napier Port's customers which are accounted for as a single performance obligation; and
- Revenue is recognised over time as the customer simultaneously benefits from the services.

Napier Port has concluded that there will be no material impact to the financial statements following the application of NZ IFRS 15.

NZ IFRS 16 Leases

Napier Port has adopted NZ IFRS 16 for the financial year beginning 1 October 2018, being FY2019F.

NZ IFRS 16 impacts the recognition, measurement, presentation and disclosure of Napier Port's leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The approach to lessor accounting is substantially unchanged under NZ IFRS 16 from its predecessor, NZ IAS 17 and there are no expected measurement differences in regards to leases where Napier Port is the lessor.

On adoption of NZ IFRS 16, Napier Port recognised lease liabilities of $1.1 million in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17. Right-of-use assets were also recognised and measured at an amount equal to the lease liabilities.

Napier Port has concluded that there will an increase in Pro forma EBITDA of $250,000 in FY2019F and FY2020F following the application of NZ IFRS 16 as previously classified operating expenses will be classified as depreciation and interest. The application of this standard is not expected to materially impact profit before tax. No adjustment has been made to the Historical Period to reflect the impact adoption of NZ IFRS 16.

NZ IFRS 2 Share-based Payment

During FY2019F, Napier Port expects to offer all employees the option to participate in an IPO employee share ownership plan. In addition, key executives are expected to be granted performance share rights. Both of these arrangements meet the definition of a share-based payment and are accounted for as equity-settled share-based payments in the scope of NZ IFRS 2.

The fair value of equity-settled share-based payments is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the option or share right granted. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be met. At the end of each reporting period, Napier Port revises its estimates of the number of options or share rights it expects to vest. The impact of the revision of original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

The recognition of the share-based compensation plans is expected to result in an employee benefits expense of $0.5 million during FY2019F, with a corresponding amount recognised in the share-based payments reserve within equity. Loans to fund employee participation in the IPO employee share ownership plan are recourse only to the shares, interest free, reduce with dividend payments, and are repayable by the employee at any time or upon ceasing employment with Napier Port. The shares acquired with the loan funding provided by Napier Port are recognised as a reduction in equity for the purchase of treasury shares, and is reversed as loan balances reduce or are repaid.

3.2 GENERAL ASSUMPTIONS

The following general assumptions have been made in preparing the PFI:

- **General economic environment** - there will be no change in the general economic and international trade environment in which Napier Port operates;
- **Political, legislative and regulatory environment** - there will be no material changes to the legislative or regulatory environments in which Napier Port operates, or that would impact the supply or demand for cargo handled by Napier Port;
- **Competitive environment** - there will be no material change to the competitive dynamics of the market in which Napier Port operates, and no new entrants that will materially change the competitive environment;
- **Industry conditions** - there will be no change in the general industry structure, third party relationships and supply or general employment conditions;
- **Key customers, tenants and suppliers** - existing contractual, business and operational relationships are assumed to continue throughout the Prospective Period. There will be no unanticipated loss of key customers, tenants, suppliers, or agents;
- **Operational disruption** - there will be no material disruptions to operations such as industrial actions, natural disasters, fires or explosions and normal hazards associated with operating Napier Port's business;
- **Trade disruptions** - there will be no material disruption to trade that would impact Napier Port's customers (such as forestry and horticultural);
- **Asset acquisitions or disposals** - there will be no material acquisitions or disposals by Napier Port other than those detailed within the PFI;
- **Interest rate environment** - there will be no material or sudden changes to the interest rate environment;
- **Legal exposure** - there will be no unexpected litigation or contractual disputes;
- **Management of Napier Port** - there will be no significant changes to key personnel involved in the management of Napier Port; and
- **Taxation** - there will be no material change to the income tax or goods and services tax (GST) regimes in New Zealand. Corporate tax and GST rates are assumed to remain unchanged.

3.3 SPECIFIC ASSUMPTIONS - OPERATING ACTIVITIES

This section provides an overview of various specific assumptions applied in preparing the PFI.

3.3.1 OPERATING INCOME OVERVIEW

Revenue is primarily driven by the volume and mix of commodities, cargo type (containerised or bulk), number of ship calls, customer rate card prices and additional customer tariffs.

Napier Port's financial performance is strongly influenced by the trade levels in the Hawke's Bay region. 79%[1] of Napier Port's cargo volumes are exports and are influenced by the level of forestry, pipfruit and horticulture industry exports in the region. Key imports include fertiliser and oil products. The volume of empty containers imported to the region in order to export containerised cargo is also a factor in the trade volume forecasts.

Napier Port forecasts the expected trade volumes by commodity and cargo type. Forecast trade volumes take into consideration the following factors:

- Industry consultation with key suppliers to identify the anticipated trade profile across major industries;
- Consideration of independent reports commissioned by Napier Port on forecast trade volumes;
- Commodity analysis such as demand drivers, regional production trends, global commodity and export price forecasts; and
- Macroeconomic drivers and indicators that underpin demand at an aggregate level, such as GDP forecasts.

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Container Services	51,982	60,615	58,005	59,483	63,117
Bulk Cargo	16,792	21,583	28,966	31,575	32,095
Cruise	1,513	2,083	2,561	3,596	4,795
Sundry revenue	251	306	353	757	418
Revenue from port operations	**70,538**	**84,587**	**89,884**	**95,410**	**100,425**
Property income	2,114	2,092	1,865	1,948	2,109
Operating income	**72,653**	**86,679**	**91,749**	**97,358**	**102,533**

3.3.1.1 REVENUE FROM PORT OPERATIONS

3.3.1.1.1 CONTAINER SERVICES

Container Services revenue comprises container terminal revenue and other container services revenue, each driven by the following factors:

Container terminal revenue

Container terminal revenue includes container vessel marine charges for pilotage, towing, mooring and berthage, container handling charges, and tariffs charged to recover costs of various infrastructure improvements and

[1] Based on FY2018 trade volumes

insurance increases. Container terminal revenue is driven primarily by the volume of containers handled by Napier Port, which comprises containerised products (apples, pears, containerised wood products etc.) plus empty container imports. However, it is also impacted by the following:

- The mix of refrigerated, dry and empty containers (typically the per unit rates charged for refrigerated containers are higher relative to dry containers, and the per unit rates charged for dry container are higher relative to empty containers);
- The container size mix (typically the per TEU revenue for 20ft containers is greater than the equivalent revenue of 40ft containers); and
- The number of container vessel calls.

Other Container Services revenue

Additional revenue for other services provided to Container Services customers includes:

- Depot services including survey, cleaning, repair, pre-trip inspection, servicing and off-port storage of empty containers; and
- Port Pack services for packing and unpacking cargo into containers predominantly for export customers.

Assumptions

Napier Port forecasts Container Services revenue as follows:

Trade volumes are estimated in tonnes and then converted to TEUs using conversion factors, the PFI assumes that conversion factors will be consistent with historical rates;

- Revenue is calculated using forecast TEUs and contractual rates and any applicable tariffs, either agreed with customers or anticipated;
- Marine service charges for Container Service customers is forecast based on the expected number of Container vessel visits taking into account shipping schedules, and contractual rates and any applicable tariffs, either agreed with customers or anticipated; and
- Other Container Services revenue is also forecast based on anticipated trade volumes converted to TEUs and contractual rates and any applicable tariffs, either agreed with customers or anticipated.

Container Services						
		FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**Units**	12 months ending 30 Sept 16	12 months ending 30 Sept 17	12 months ending 30 Sept 18	12 months ending 30 Sept 19	12 months ending 30 Sept 20
Revenue						
Container terminal revenue	NZ$000's	41,260	50,748	49,691	52,240	55,730
Other container services revenue	NZ$000's	10,722	9,867	8,313	7,242	7,387
Total Container Services revenue	**NZ$000's**	**51,982**	**60,615**	**58,005**	**59,483**	**63,117**
KPIs						
Average revenue per TEU	NZ$	202	210	218	221	232
Exports						
Wood pulp & timber	TEU (000s)	48	51	53	53	53
Canned food / other food	TEU (000s)	14	16	9	12	12
Other dry	TEU (000s)	9	12	11	9	9
Total dry	**TEU (000s)**	**70**	**78**	**73**	**74**	**74**
Apples & pears	TEU (000s)	23	22	24	24	25
Meat	TEU (000s)	11	19	16	14	14
Fresh & other chilled produce	TEU (000s)	15	15	15	16	16
Total reefer	**TEU (000s)**	**50**	**55**	**54**	**55**	**56**
Empty	TEU (000s)	8	8	4	4	4
Total exports	**TEU (000s)**	**128**	**142**	**130**	**132**	**134**
Imports						
Dry	TEU (000s)	23	47	29	28	29
Reefer	TEU (000s)	3	2	4	3	3
Empty	TEU (000s)	97	91	96	97	98
Total imports	**TEU (000s)**	**124**	**140**	**129**	**128**	**130**
Other container movements	TEU (000s)	6	7	7	8	8
Total Container Services volume	**TEU (000s)**	**257**	**288**	**266**	**269**	**272**
Vessels						
Container ships	# calls	358	372	329	314	313

FY2019F performance relative to FY2018

Container Services revenue is forecast to increase by 2.5% in FY2019F, driven by increased volumes as well as increased average revenue per TEU, specifically:

- Total container volumes are forecast to increase by 1.2%, primarily driven by increases in food exports, partly offset by a small decrease in meat export volumes.
- Average revenue per TEU is forecast to increase by 1.3%, as:
  - The decrease in Other Container Services revenue, due to the loss of a Depot customer; and
  - 15 fewer container vessel calls are anticipated in FY2019F. This decrease is due to a change in shipping schedule for one container shipping line customer.

  Offset by:

  - Agreed or expected increases to container terminal rates to recover increases in operating costs; and

- o The introduction of an infrastructure levy of $22.75 per full TEU in April 2019, which was introduced to recover the cost of infrastructure investments made to extend capacity and support ongoing growth.

FY2020F performance relative to FY2019F

Container Services revenue is forecast to increase by 6.1% in FY2020F driven by the following:

- Total container volumes are forecast to increase by 1.2%, primarily driven by continued growth in pipfruit and other refrigerated export volumes as well as an increase in import volumes.
- Average revenue per TEU is forecast to increase by 4.8% due to the following:
  - o The full-year impact of the infrastructure levy; and
  - o Expected or agreed increases to tariffs to recover forecast increases in operating costs.

3.3.1.1.2 BULK CARGO

Bulk Cargo revenue is primarily driven by:

- Cargo volumes;
- Cargo mix, with log exports typically generating more revenue per tonne than other bulk cargo types due to the additional facilities used for fumigation and storage; and
- The number of charter vessel calls.

Assumptions

Napier Port forecasts Bulk Cargo revenue as follows:

- Trade volumes are estimated in tonnes and then converted into their relevant chargeable metric;
- Revenue is calculated using converted volumes and contractual rates or tariffs, either agreed with customers or anticipated; and
- Marine service charges for Bulk Cargo customers is generally forecast by estimating the number of charter vessel visits based on forecast volumes.

Bulk Cargo						
		FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**Units**	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Revenue						
Bulk Cargo revenue	NZ$000's	16,792	21,583	28,966	31,575	32,095
KPIs						
Average revenue per tonne	NZ$	8.29	8.61	9.43	9.34	9.68
Volume						
Log exports	Kilotonnes	1,208	1,630	2,208	2,500	2,500
Other exports	Kilotonnes	262	241	177	223	208
Imports	Kilotonnes	555	634	686	657	609
Total Bulk Cargo volume	**Kilotonnes**	**2,025**	**2,506**	**3,071**	**3,380**	**3,317**
Vessels						
Charters	# calls	240	262	298	298	298

FY2019F performance relative to FY2018

Bulk Cargo revenue is forecast to increase by 9.0% in FY2019F, driven by increased volumes which are partially offset by a reduction in the forecast average revenue per tonne, specifically:

- Log volumes are forecast to increase by 13.2%, from 2,208 kilotonnes to 2,500 kilotonnes, due to an expected increase in forestry harvests. Forecast log volumes are supported by discussions with key customers;
- Other export volumes are forecast to increase by 26.1%, primarily driven by an increase in bulk wood pulp and timber exports; and
- Bulk cargo import volumes are forecast to decrease by 4.3% due to a decrease in oil product imports. This decrease reverses the impact of abnormally high FY2018 volumes due to the timing of shipments received at the end of FY2018.
- Average revenue per tonne is forecast to reduce relative to FY2018 due to:
  - The completion and removal of a levy on log exports in November 2018, implemented to recover historical capital investment in log storage area paving;
  - The forecast number of charter vessel calls being consistent with FY2018, despite the increase in bulk cargo volume;
  - A decrease in log storage revenue due to expected improvements in log turnover; and
  - The above impacts are expected to be partially offset by increases in tariffs to recover forecast increases in costs and a positive trade mix towards log exports.

FY2020F performance relative to FY2019F

Bulk Cargo revenue is forecast to increase by 1.6% in FY2020F, driven by a decrease in forecast volume offset by forecast growth in average revenue per tonne, specifically:

- In light of current international log prices in China, log export volumes are forecast to remain consistent with FY2019F at 2,500 kilotonnes.
- Other bulk import and export volumes are forecast to decrease due to lower fertiliser imports and lower general cargo exports; and
- Average revenue per tonne is forecast to increase by 3.6%, due to forecast increases in tariff rates to recover forecast increases in operational costs, as well as a further positive trade mix towards log exports.

3.3.1.1.3 CRUISE SERVICES

Cruise Services revenue is primarily driven by the number of vessel calls. The number of vessel calls is impacted by the tourism activity in the Hawke's Bay region. Revenue has been forecast based on the number of advanced bookings received for cruise ship calls, which are often confirmed two years in advance.

Cruise Services						
		FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	Units	12 months ending 30 Sept 16	12 months ending 30 Sept 17	12 months ending 30 Sept 18	12 months ending 30 Sept 19	12 months ending 30 Sept 20
Revenue						
Cruise revenue	NZ$000's	1,513	2,083	2,561	3,596	4,795

FY2019F performance relative to FY2018

Cruise Services revenue is forecast to increase by 40.4% in FY2019F, driven by:

- An additional 13 cruise vessel calls; and
- An increase in the average revenue per call due to an increase in cruise vessel schedule rates.

FY2020F performance relative to FY2019F

Cruise Services revenue is forecast to increase by 33.4% in FY2020F, driven by:

- An additional 17 cruise vessel calls; and
- An increase in the average revenue per call primarily due to the introduction of a passenger charge to contribute to the costs of infrastructure improvements.

3.3.1.1.4 SUNDRY INCOME

Sundry income includes marine charges to fishing, pleasure and other vessels. Sundry income is forecast based on the actual results in 1HY2019. FY2020F is forecast to be consistent with the Historical Period.

3.3.1.2 PROPERTY INCOME

Property income has been forecast based on the agreed terms in the current lease agreements. Lease income in FY2019F is forecast to remain at a similar level to FY2018. FY2020F lease income is forecast to increase by 8.3% as an additional property is assumed to be leased.

3.3.2 OPERATING EXPENSES

3.3.2.1 EMPLOYEE BENEFIT EXPENSES

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Wages & salaries	20,896	22,908	23,896	26,412	29,509
Other staff expenses	1,909	3,288	2,455	1,989	2,198
Total employee benefit expenses	**22,805**	**26,196**	**26,352**	**28,401**	**31,708**

Employee benefit expenses include wages and salaries paid to permanent and casual employees, annual leave and superannuation.

Employee benefit expenses have increased over the Historical Period as additional staff were required to support the increase in trade volumes and corporate activity. In addition, one-off employment related expenses of $0.2m in FY2016, $0.6m in FY2017 and $0.6m in FY2018 were incurred as a result of staff turnover. No significant termination costs are forecast to occur in FY2019F and FY2020F.

Staff costs are forecast to increase in the Prospective Period, driven by an increase in staff numbers to support growth and expected inflationary pay increases in FY2019F and FY2020F.

3.3.2.2 MAINTENANCE EXPENSES

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Maintenance expenses	6,930	9,053	9,236	8,810	9,082

Maintenance expenses include expenditure to maintain mobile plant (forklifts, cranes and floating plant), fuel, plant and equipment hire and general consumable expenses.

Maintenance expenses are primarily impacted by cargo volumes, plant maintenance activity and fuel prices. Maintenance expenses as a percentage of operating revenue increased proportionally in FY2017 due to increased container volumes following the Kaikoura earthquake and the higher utilisation of equipment. FY2018 maintenance costs were impacted by significant increases in fuel prices during the year.

FY2019F maintenance expenses are forecast to decrease due to:

- A forecast decrease in the average fuel price;
- An expected decrease in heavy machinery maintenance activity following higher spend in FY2017 and FY2018; and
- The reclassification of forklift lease expenses out of maintenance expenses upon the adoption of NZ IFRS 16 - Leases, as discussed in section 3.1.2.

FY2020F maintenance expenses are forecast to increase by 3.1% as a result of the forecast increases in both trade volume and general prices.

3.3.2.3 OTHER OPERATING EXPENSES

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	12 months ending 30 Sept 16	12 months ending 30 Sept 17	12 months ending 30 Sept 18	12 months ending 30 Sept 19	12 months ending 30 Sept 20
Administration expenses	3,923	4,241	4,928	5,814	6,642
Occupancy expenses	2,965	3,336	5,207	5,184	6,021
Contract labour	3,584	4,038	4,139	4,354	4,414
Site expenses	1,152	1,307	1,626	2,006	2,076
Other staff expenses	872	1,153	1,350	1,487	1,710
Offer costs	-	-	-	7,339	-
Total other operating expenses	**12,495**	**14,076**	**17,250**	**26,185**	**20,863**
Pro forma adjustments					
Offer costs	-	-	-	(7,339)	-
Listed company costs	1,620	1,620	1,620	1,485	-
Pro forma other operating expenses	**14,115**	**15,697**	**18,871**	**20,331**	**20,863**

Administration expenses

Administration expenses include marketing, technology, consultants, governance, travel and communication expenses.

Administration expenses have increased over the Historical Period due to an increase in corporate finance advisory and strategic planning costs ($0.4 million in FY2017 and $0.3m in FY2018), which are not expected to be incurred in FY2019F and FY2020F and an increase in IT software and licence costs.

Administration expenses are forecast to increase by 18.0% in FY2019F due to consultancy costs relating to port master planning, $0.5 million relating to the employee share ownership plan, and incremental listed company costs.

FY2020F administration expenses are forecast to increase by 14.3% due to additional incremental listed company costs of $1.5 million.

Pro forma administration expenses include an allowance of $1.6 million to reflect incremental costs associated with being a listed entity. For the post IPO Prospective Periods, forecast incremental listed company costs ($0.1 million in FY2019F and $1.6 million in FY2020F) are included in forecast administration expenses.

Occupancy expenses

Occupancy expenses include insurance, power, water and cleaning. Occupancy expenses increased in the last financial quarter of FY2017 and in FY2018 largely due to an increase in insurance premiums to the port sector following the November 2016 Kaikoura earthquake.

Occupancy expenses in FY2019F are forecast to be consistent with FY2018 and increase by 16.1% in FY2020F, as insurance costs are anticipated to increase with higher asset valuations, higher premiums, and additional capital expenditure over the period.

Contract labour

Contract labour includes stevedoring services and security contractors.

Contract labour costs are forecast to increase in both FY2019F and FY2020F primarily due to increased container volumes and expected inflationary cost increases.

Site expenses

Site expenses include repairs and maintenance for buildings, wharves, paving, other port infrastructure and berth dredging costs.

Site expenses are forecast to increase by 23.4% in FY2019F, primarily due to seismic testing costs of $0.3 million.

FY2020F site expenses are forecast to be consistent with FY2019F and in line with Napier Port's long-term asset management plan.

Other staff expenses

Other staff expenses include ACC levies, training, fringe benefit tax, health and safety and employee amenities expenses.

Other staff expenses are forecast to increase by 10.2% in FY2019F and 15.0% in FY2020F, primarily due to increases in headcount and associated onboarding and training costs.

Offer costs

Total Offer costs are forecast to be $14.0 million.

The portion of Offer costs that relate to the issue of any equity instrument in accordance with NZ GAAP are recorded as a deduction of the offer proceeds ($6.7 million) and are expected to be paid in FY2019F and FY2020F. All other Offer costs are recorded in the statement of comprehensive income ($7.3 million) and are expected to be paid in FY2019F. For the purpose of the PFI, the total Offer costs have been forecast based on the assumption that the Final Price is set at the middle of the Indicative Price Range and HBRIC retains a stake of 55%. Total Offer costs depend on the Final Price.

3.3.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

NZ$000s	FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Depreciation	8,843	10,095	10,256	11,056	12,356
Amortisation	390	531	593	475	591
Impairment	1,019	437	135	150	-
Total depreciation, amortisation and impairment	**10,251**	**11,063**	**10,984**	**11,680**	**12,947**

Property, plant and equipment is depreciated using depreciation rates calculated to allocate assets' cost less estimated residual value over their useful lives. Freehold land, capital dredging and investment property are not depreciated. Mobile harbour cranes are depreciated based on engine hour usage on a unit-of-production basis.

Depreciation in the Prospective Period is based on existing rates of depreciation and amortisation, adjusted for planned capital expenditure.

Depreciation increased in FY2017 and FY2018, and is forecast to increase in FY2019F and FY2020F, reflecting the actual and forecast capital expenditure over the Prospective Period.

Depreciation rates adopted are not expected to change materially in the Prospective Period. However, the following changes impact the historical and Prospective Period:

- Depreciation increased in FY2017 as a result of a change to the depreciation estimates for cranes and forklifts, which reduced the expected useful life of these assets; and

- Depreciation is forecast to increase in FY2019F as the result of a reduction in estimated residual value for floating plant.

Amortisation relates to computer software and is forecast to remain relatively consistent with the Historical Period.

Impairment over the Historical Period related to the impairment of mobile plant and equipment that is no longer in use. Impairment of building improvements is forecast to occur in FY2019F.

3.3.4 SHARE OF LOSS AND IMPAIRMENT OF EQUITY ACCOUNTED INVESTEE

While the Manawatu Inland Port has strategic value for Napier Port, the joint venture that is developing the Port (Longburn Intermodal Freight Hub Limited) is loss making. The increase in the share of loss and impairment of equity accounted investee in FY2019F is due to the $0.8 million impairment of the investment in the Longburn Intermodal Freight Hub Limited joint venture in 1HY2019, which is currently loss making. The value of the investment in the joint venture is assumed to be $nil in FY2019F and FY2020F with additional joint venture partner contributions assumed to be expensed in the period paid.

3.3.5 FINANCE EXPENSES

New share capital raised under the Offer net of estimated costs of $14.0 million, will first be applied against existing bank debt and the closure of interest rate swap liabilities.

Finance expenses will increase in FY2019F due to the closure of these swap agreements, which are assumed to be transferred from equity reserves to net finance costs at the time of closing the swap agreements. FY2019F finance expenses include $6.6 million relating to the release of the hedge reserve to the Statement of

Comprehensive Income. The forecast value at the date of closure of the swap agreements is based on an indicative estimate provided by Westpac of the cost to close out the swaps as at 20 June 2019.

Napier Port has entered into facility agreements with Westpac New Zealand Limited, Industrial and Commercial Bank of China (New Zealand) Limited and Industrial and Commercial Bank of China (Asia) Limited ("Facility Agreements"). Financial close of the Facility Agreements is subject to conditions precedent customary for such agreements, the completion of the Offer and the repayment of the existing facilities provided to Port of Napier.

Financing structure

Immediately following the Offer, and subject to satisfaction of all relevant conditions, Napier Port will have three facilities available under the Facility Agreements with the following key terms and features:

Facility	Size	Amount drawn[2]	Maturity date[3]
Revolving credit facilities	$180 million	Nil	33% July 2023 66% August 2024

These revolving credit facilities are forecast to be drawn to cover the costs associated with the development of 6 Wharf and for general corporate purposes.

Napier Port is required to pay interest on the facilities provided under the Facility Agreements. For borrowing periods shorter than 29 days, interest on amounts drawn will be calculated by reference to the relevant bank's cost of funds (as determined by that bank) plus a credit margin. For borrowing periods longer than 29 days, interest on amounts drawn will be calculated as the BKBM floating rate plus a credit margin. Additionally, a line fee is payable on the total committed facilities. The line fees and margins payable are calculated by reference to a matrix that references the most recently reported debt coverage ratio (described below). Interest rate risk is managed in accordance with the hedging parameters set out in Napier Port's Treasury Policy.

Undertakings and financial covenants

The Facility Agreements contain a number of legally binding undertakings given by Napier Port, which are usual for facilities of this nature and include undertakings to provide certain information, restrictions as to disposals of assets and restrictions on the provision of loans and guarantees. The Facility Agreements will be subject to the following financial covenants (tested quarterly)[4]:

- **Debt coverage ratio –** the ratio of Total Debt of the Group to EBITDA of the Group shall be less than 4.50 times;
- **Interest coverage ratio –** the ratio of EBITDA of the Group to Finance Costs of the Group shall be greater than 3.00 times;
- **Equity ratio –** the ratio of Shareholder Funds to of the Group to Total Assets of the Group shall be greater than 50%; and

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[2] Estimated drawn amount following completion of the Offer and settlement of associated Offer costs
[3] Maturity dates are estimated based on the dates expected for satisfaction of conditions precedent or execution of agreements, as may be applicable
[4] Each of the capitalised terms used has particular meaning as specified in the Facilities Agreements

- **Group coverage ratio –** Total Tangible Assets and EBITDA of the Obligors shall not be less than 95% of Total Tangible Assets and EBITDA of the Group.

Napier Port expects to be in compliance with the financial covenants outlined in the Facility Agreements over the Prospective Period.

The banking facilities are expected to provide Napier Port with sufficient liquidity to meet its capital requirements and pay its debts as they fall due over the Prospective Period.

Security

The Facility Agreements are not secured over any physical assets of Napier Port. Napier Port has instead agreed not to grant security over any of its assets (subject to certain permitted exceptions).

3.3.6 TAX

Income tax expense is calculated at 28% of net profit before tax adjusted for permanent differences.

Income tax payable is based on income tax on profit before tax at 28% adjusted for non-deductible expenses, non-assessable income, prior year adjustments and tax payments made during the year.

Deferred tax is calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Napier Port expects to report an effective income tax rate of 48% in FY2019F and 28% in FY2020F. The predominant driver behind the higher effective income tax rate of 48% in FY2019F is $5.6 million (tax effect $1.6 million) of transaction costs and the impairment of the joint venture of $0.8 million (tax effect of $0.2 million) which are not deductible for income tax purposes.

3.3.7 WORKING CAPITAL ASSUMPTIONS

NZ$000	As at 30 Sept 2016	As at 30 Sept 2017	As at 30 Sept 2018	As at 30 Sept 2019	As at 30 Sept 2020
Trade and other receivables	7,927	11,891	12,191	14,882	14,200
Trade and other payables	(6,732)	(7,859)	(8,734)	(8,728)	(8,871)
Net working capital	**1,195**	**4,032**	**3,457**	**6,153**	**5,328**
Reconciliation to total trade payables					
Trade and other payables per above	(6,732)	(7,859)	(8,734)	(8,728)	(8,871)
Capex payables	(473)	(3,324)	(635)	(3,640)	(4,890)
Trade and other payables per Statement of Financial Position	**(7,205)**	**(11,183)**	**(9,369)**	**(12,368)**	**(13,762)**

FY2019F and FY2020F working capital balances have been forecast as follows:

- Trade and other receivables are forecast based on historical debtor days between FY2016 to FY2018;
- Trade and other payables include trade payables, accruals and employee related accruals. Trade payables have been forecast based on historical creditor days whilst employee provisions are assumed to increase in proportion with employee benefit expenses; and
- Capital expenditure payables are forecast separately on the basis they will be paid within 20 days.

3.3.8 CAPITAL EXPENDITURE

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**
Development capex					
6 Wharf development	1,931	1,214	957	5,442	49,784
Additional tug	-	-	-	4,882	5,961
Acquisition and development of off-port depot services land	114	5,171	4,101	3,200	1,600
Acquisition of off-port land	-	3,951	-	-	-
Refrigerated container capacity	-	-	1,720	1,750	-
Other development capex	802	1,541	709	2,677	1,568
Total development capex	**2,847**	**11,878**	**7,487**	**17,951**	**58,913**
Replacement capex	8,055	9,602	5,248	9,031	13,227
Compliance and other capex	33	231	424	576	250
Total capex	**10,935**	**21,710**	**13,160**	**27,558**	**72,391**
Movement in fixed asset creditors	(473)	(2,851)	2,689	(2,530)	(1,087)
Capitalised finance costs	(268)	(185)	(260)	(225)	(1,603)
Capex per cash flow	**10,195**	**18,674**	**15,589**	**24,803**	**69,701**

Development capex

Development capex over the Historical Period included:

- Between FY2016 and FY2018, technical studies, design and consultation costs towards seeking resource consents for the proposed 6 Wharf development;
- The acquisition of additional land and development costs in FY2017 and FY2018 for an off-port depot site based in Thames Street, Pandora;
- The acquisition of additional off-port land in Whakatu in FY2017 for long-term future development; and
- New refrigerated container towers constructed in FY2018.

Capital expenditure in relation to expansionary infrastructure improvements is assumed to be incurred during the Prospective Period, primarily relating to the development of 6 Wharf.

Refer to Section 2 (*Napier Port and what it does*) and Section 8 (*Risks to Napier Port business and plans*) of the PDS for a detailed overview of the 6 Wharf expansion project and associated risks. It is assumed that the Offer will proceed as planned enabling the negotiated Construction Contract to be executed in or around September 2019 and construction works to commence shortly thereafter and conclude in 2022 with an estimated 30 month build programme.

The total capital expenditure forecast in the Prospective Period in relation to 6 Wharf is based on Napier Port's anticipated project timeline and estimated timing of capital expenditures during the Prospective Period.

Other development capital expenditure over the Prospective Period include:

- The acquisition of a third tug boat to increase towage capability;

- The off-port redevelopment at Thames Street in FY2019F and FY2020F to relocate a number of depot services off-port to create additional container terminal capacity and space for the 6 Wharf project facilities and construction area;
- Additional refrigerated container towers in FY2019F; and
- The development of technology platforms.

Napier Port also expects to capitalise finance costs of $1.6 million in FY2020F in relation to 6 Wharf and the additional tug.

Replacement capex

Replacement capex in the Historical Periods includes final payments for the acquisition of two replacement mobile harbour cranes in FY2016 and the replacement of mobile plant forklifts in FY2017 and FY2018.

Replacement capex of $9.0 million is forecast for FY2019F and includes projects for existing wharves, light towers and container terminal paving.

Replacement capex is forecast to increase in FY2020F due to a number of larger replacement capex items, in line with Napier Port's asset management plan. Key expenditure includes:

- Wharf improvements ($3.0 million) comprising regular maintenance capex such as deck works, replacement fenders, waterproof spraying and recoating of bollards;
- A replacement pilot vessel ($2.5 million);
- Maintenance dredging ($1.3 million);
- Container terminal paving ($1.2 million);
- The replacement of mobile plant forklifts ($1.2 million); and
- Building management ($0.8 million) such as corrosion protection and replacement of roofing and guttering.

Other capex

Other capex relates to compliance focused projects and includes expenditure on navigation and fire safety equipment.

3.3.9 DIVIDENDS

Subject to the PFI being achieved, Napier Port intends to declare dividends during the Prospective Period as follows:

- In FY2019F, Napier Port expects to pay dividends to HBRIC of $54.0 million in total, comprising ordinary dividends of $10.0 million and a special dividend of $44.0 million, which will be paid prior to completion of the Offer in order to utilise substantially all of Port of Napier's imputation credit balance (that would otherwise be lost due to the change in ownership following completion of the Offer).
- Following completion of the Offer the Directors' intention is to declare a dividend of $5.0 million which will be payable in December 2019.

- In respect of FY2020F, provided the PFI is achieved, the Directors' intention is to pay dividends of $14.9 million which represents a dividend payout ratio of approximately 70% of free cash flow[5] based on the dividend policy. This is expected that to be made up of an Interim Dividend of $6.0 million (payable in June 2020 following the release of Napier Port's first half FY2020 results) and a Final Dividend of $8.9 million (payable in December 2020 following the release of Napier Port's full year FY2020 results).

Dividends will be fully imputed to the extent possible and are expected to be fully imputed in FY2019F and FY2020F. Refer to the dividend policy in Section 6 (*Key features of the Shares)* of the PDS for further information on dividend policy.

[5] Free cash flow is defined as NPAT adjusted for the post-tax impact of fair value revaluations of derivatives and investment properties, plus depreciation, amortisation and impairment, less average replacement capital expenditure of maintaining Napier Port's asset base. Average replacement capital expenditure is based on an assessment of the long term average replacement capital expenditure requirements for Napier Port (in 2019 real terms). A reconciliation of NPAT to free cash flow is provided in Part B (*Reconciliation of non-NZ GAAP financial information*)

4.0 SENSITIVITY ANALYSIS OF PROSPECTIVE FINANCIAL INFORMATION

The PFI is inherently sensitive to a number of assumptions used in its preparation.

A summary of the likely effect that variations to assumptions may have on the PFI is detailed in the table below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes but are for information purposes to allow potential investors to gain an understanding of the sensitivity of financial outcomes to changes in key assumptions.

Care should be taken in interpreting the sensitivity information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting effects or compounding effects on other variables, the impact of which is not reflected in the PFI. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which are not reflected in the PFI.

Key assumptions that are considered to have a significant potential impact on Napier Port's performance during the PFI period are:

Volume indicators

- Container volumes - the potential impact of a change in the total number of containers. This sensitivity assumes that operating costs are either variable or fixed in nature. The actual impact of volume movements may vary from the information presented as some operating costs are semi-variable.

- Log volumes - the potential impact of a movement in log volumes.

Price

- Container Services rates - the potential impact of a change in the rates charged for container exchanges across all customers and container types. This sensitivity assumes that all rates vary from those currently in place with customers, and that new rates take effect from the next renewal date based on contractual terms.

- Log wharfage rates - the potential impact of an increase in log wharfage rates charged to each customer. This sensitivity assumes that all rates vary from those currently in place, and that new rates take effect from the next renewal date based on contractual terms.

The table below illustrates the impact on EBITDA from stated movements in assumptions used in the Prospective Period. The sensitivities do not take into account any mitigating measures that Napier Port may implement should a change in assumption arise.

	Sensitivity range	Impact on EBITDA (NZ$m)		
Volume indicators				
Container Services Volumes				
FY2019F	+ / - 2%	0.5	to	(0.5)
FY2020F	+ / - 2%	0.9	to	(0.9)
Log cargo volumes				
FY2019F	+ / - 10%	0.8	to	(0.8)
FY2020F	+ / - 10%	1.6	to	(1.6)
Price indicators				
Container Services Rates				
FY2019F	+ / - 5%	1.0	to	(1.0)
FY2020F	+ / - 5%	2.0	to	(2.0)
Log Bundled Charge Rates				
FY2019F	+ / - 5%	0.4	to	(0.4)
FY2020F	+ / - 5%	0.8	to	(0.8)

Note: FY2019F sensitivities relate to the impact of a change in assumption for the period 1 April 2019 to 30 September 2019, given FY2019F includes 1HY2019 actual results.

PART B: RECONCILIATION OF NON-NZ GAAP FINANCIAL INFORMATION

Reconciliation of Pro forma EBITDA

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F	1HY2018	1HY2019
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**	**6 months ending 31 Mar 18**	**6 months ending 31 Mar 19**
Statutory net profit after tax	**11,471**	**16,706**	**17,576**	**5,594**	**19,973**	**7,896**	**9,160**
add: Taxation expense	4,468	5,594	6,859	5,157	7,901	3,362	4,190
add: Net interest expense	4,184	3,965	4,107	10,436	(61)	2,064	2,026
add: Depreciation and amortisation	9,232	10,626	10,849	11,530	12,947	5,457	5,679
EBITDA	**29,356**	**36,891**	**39,391**	**32,717**	**40,760**	**18,779**	**21,055**
Pro forma adjustments:							
Offer costs	-	-	-	7,339	-	-	-
Incremental listed company costs	(1,620)	(1,620)	(1,620)	(1,485)	-	(810)	(810)
Other (income) expenses	10	(114)	(709)	(25)	-	(82)	(25)
Share of (income) loss of equity accounted investee	39	141	94	310	120	60	90
Impairment of joint venture	-	-	-	809	-	-	809
Total pro forma adjustments	**(1,572)**	**(1,594)**	**(2,235)**	**6,949**	**120**	**(832)**	**64**
Pro forma EBITDA	**27,784**	**35,297**	**37,156**	**39,665**	**40,880**	**17,947**	**21,119**

Reconciliation of Pro forma NPAT

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F	1HY2018	1HY2019
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**	**6 months ending 31 Mar 18**	**6 months ending 31 Mar 19**
Statutory net profit after tax				**5,594**	**19,973**		**9,160**
Pro forma adjustments:							
Offer costs				7,339	n/a		-
Incremental listed company costs				(1,485)	n/a		(810)
Impairment of joint venture				809	-		809
Listed company capital structure				9,769	n/a		1,626
Tax impact of pro forma adjustments				(2,810)	n/a		(236)
Pro forma NPAT				**19,217**	**19,973**		**10,549**

Reconciliation of free cash flows

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F	1HY2018	1HY2019
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**	**6 months ending 31 Mar 18**	**6 months ending 31 Mar 19**
Statutory net profit after tax					**19,973**		
add: Depreciation, amortisation and impairment expense					12,947		
less: Fair value impact of derivative and investment property revaluations					-		
less: Average replacement capital expenditure					(11,719)		
Free cash flows					**21,201**		

Reconciliation of Pro forma net cash flows from operating activities

NZ$000	FY2016	FY2017	FY2018	FY2019F	FY2020F	1HY2018	1HY2019
Financial period	**12 months ending 30 Sept 16**	**12 months ending 30 Sept 17**	**12 months ending 30 Sept 18**	**12 months ending 30 Sept 19**	**12 months ending 30 Sept 20**	**6 months ending 31 Mar 18**	**6 months ending 31 Mar 19**
Statutory net cash flows from operating activities				**24,213**	**29,945**		**11,340**
Pro forma adjustments							
Offer costs				7,339	n/a		831
Incremental listed company costs				(1,310)	n/a		(714)
Listed company capital structure				3,207	n/a		1,777
Tax impact of pro forma adjustments				(2,810)	n/a		(236)
Pro forma net cash flows from operating activities				**30,640**	**29,945**		**12,997**

PART C: DESCRIPTION OF PRO FORMA ADJUSTMENTS

In determining the use of pro forma adjustments, the Directors have considered only those items that they believe are required to ensure consistency and comparability of financial information across all relevant periods, with reference to the Financial Markets Authority guidance and consultation papers on disclosing non-NZ GAAP financial information in equity PDS disclosure. The pro forma adjustments therefore provide potential investors with relevant and meaningful information relating to financial performance over the FY2016 to FY2018 Historical Periods and the FY2019F and FY202F Prospective Period.

The pro forma adjustments that the Directors consider appropriate are explained below, and then shown as reconciliations between the financial information presented on an audited historical basis for the Historical Periods and a statutory basis for FY2019F versus a pro forma basis in the tables presented earlier in the document.

1.0 NON-RECURRING OR INFREQUENT ITEMS

Transaction costs relating to the Offer

This adjustment relates to the reversal of one-off total costs relating to Napier Port's Listing which are estimated to be $14.0 million ($5.6 million in FY2019F and $1.1 million in FY2020F are expected to be capitalised), covering Joint Lead Manager fees, NZX listing fees, share registry costs, legal, consulting, accounting and tax fees, advertising costs, travel expenses, PDS design, printing and postage costs, and other one-off costs associated with the Offer.

These costs are forecast to be incurred over FY2019F, and hence the pro forma adjustment reverses the costs in the year they have been forecast.

For accounting purposes the costs relating to the Offer have been recorded in the Statement of Comprehensive Income and capitalised on the balance sheet. This adjustment adds them back in the presentation of the pro forma PFI for FY2019PF. This accounting treatment is the result of the view that, from an accounting perspective, the transaction is to complete based upon sell-down and new capital being raised.

Other (income) expenses

Other (income) expenses have been excluded from Pro forma EBITDA as this balance is made up of items that relate to non-core operating activities of Napier Port. Over the Historical Period this balance has mainly been comprised of fair value movements relating to investment property and gains or losses from the sale of property, plant and equipment.

Share of (income) loss of equity accounted investee

Napier Port participates in a joint venture arrangement that is developing the Manawatu Inland Port, near Palmerston North, to provide cargo storage and logistics solutions (Longburn Intermodal Freight Hub Limited).

As this is an equity accounted investment the results are separately disclosed on the face of the Statement of Comprehensive Income. These results have been excluded from Pro forma EBITDA as the arrangement is not considered a core operating activity of Napier Port, but have been included in pro forma NPAT.

Impairment of joint venture

During 1HY2019, Management assessed the carrying value of the joint venture investment and after considering the estimated future cash flows and the recoverable amount the carrying value of the investment has been fully written down to zero. The impairment of the investment is a one-off event and has been excluded from the calculation of pro forma NPAT. The joint venture is operational and is assumed to be a going concern going in the Prospective Period.

2.0 STRUCTURAL CHANGES

Incremental listed company costs

This adjustment relates to the inclusion of estimated incremental costs that will be incurred by Napier Port as a publicly listed company. Incremental listed company costs have been applied as if Napier Port was listed from 1 October 2015. The incremental costs include costs for two additional directors, increased Director remuneration, additional external and internal audit, tax and legal costs, increased NZX listing fees, share registry fees, directors' and officers' insurance premiums, investor relations, company secretarial costs, additional people support costs, as well as annual general meeting and annual report costs.

An estimate of these costs is included in the PFI. To ensure the financial information is comparable a pro forma adjustment is made in each of the Historical Periods.

Listed company capital structure

The new capital structure of Napier Port will be a key driver of interest, tax expense and cash tax payments, and the debt levels and terms that will apply post listing are significantly different to the existing debt levels and terms. The Directors have determined that the historical pro forma financial information for FY2016 to FY2018 should not present any items below EBITDA, any cash flows relating to financing activities and tax, nor balance sheet items relating to interest bearing debt, equity and income tax.

The Directors believe that the FY2016 to FY2018 interest, debt and tax amounts are not meaningful information for potential investors, and that the calculations that would be required to present such information on a pro forma basis would be too subjective and potentially unreliable.

However, in order to provide potential investors with information that is comparable across the Prospective Periods, Napier Port has presented the pro forma impact of the new capital structure for FY2019PF (full year), as if the new capital structure had been in place from 1 October 2018.