



Our place, our future

MARKET UPDATE | FEBRUARY 2020

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Facilitating the most efficient and sustainable trade to and from New Zealand

Port of Tauranga is New Zealand's largest, fastest-growing and most efficient port.

It is the international freight gateway for the country's imports and exports and the only New Zealand port able to accommodate the largest container vessels to visit. We handle 30% of all New Zealand cargo, 35% of New Zealand exports and 37% of all shipping containers.

We provide our customers with highly effective supply chains through our investment in other ports, inland freight hubs, cargo handling expertise and logistics services.

We have the people and expertise required to deliver excellent service to our customers, sustainable benefits to the community and strong financial returns to our shareholders. Port of Tauranga is the economic anchor of the Bay of Plenty economy, creating jobs and wealth for the Tauranga community, the broader region and beyond.

Our approach is grounded in the principle of guardianship – of our environment, our people, our community and our future.

Port of Tauranga is New Zealand's Port for the Future.



Our highlights and challenges

For the six months ended 31 December 2019

Group Net Profit After Tax
decreased

↓ **1.4%**
to \$48.3 million

Transhipment
increased

↑ **3.7%**

Container volumes up

↑ **3.4%**
to 642,209 TEUs¹

Log exports down

↓ **8.4%**
to 3.4 million tonnes

Total trade down

↓ **4.2%**
to 13.3 million tonnes

Increase in Subsidiary and
Associate Company earnings

↑ **17.2%**

Dairy exports up

↑ **6.3%**
to 1.2 million tonnes

Interim dividend of

6 cents
per share

¹TEU = twenty foot equivalent units, a standard measure of shipping containers.

Report from the Chair and Chief Executive

“

Revenue increased 1.0% to \$154.8 million for the six months ended December 2019.

Port of Tauranga maintained stable profitability for the first six months of the 2020 financial year, despite total cargo volumes dipping 4.2% to just under 13.3 million tonnes.

Group Net Profit After Tax was \$48.3 million, which was 1.4% lower than the same period the previous year. Adjusting for the impact of new accounting standard NZ IFRS 16 for leases, which reduced profit after tax for the period by \$0.587 million, comparative earnings were 99.8% of the prior corresponding period.

Container numbers increased 3.4% to 642,209 TEUs for the six months to December 2019. Transhipment, where cargo is transferred from one ship to

another at Tauranga, increased 3.7%. This trend continues to consolidate Port of Tauranga’s position as New Zealand’s international hub port.

Financial results

Revenue increased 1.0% to \$154.8 million for the six months ended December 2019. This was offset by a significant increase in tug and crane maintenance spending. Capital expenditure was \$25.6 million over the six months, up \$3.9 million on the previous period.

The Port of Tauranga Board has declared a fully imputed interim dividend of 6.0 cents per share, the same as the corresponding period last year.



David Pilkington

Chair

Mark Cairns

Chief Executive

“

Subsidiary and Associate Company earnings increased 17.2% over the period, driven by strong performances from Northport and PrimePort Timaru.



Cargo trends

Container volumes continued to rise, up 3.4% on the previous period. Transshipment also continued to grow, increasing 3.7%.

Despite the increase in containerised trade, global commodity cycles have seen exported cargo decrease 2.6% to 8.6 million tonnes¹.

Imported goods handled by Port of Tauranga decreased 6.7% to nearly 4.7 million tonnes over the six month period.

Log exports were down 8.4% on the previous corresponding period, to 3.4 million tonnes, following a period of lower international prices and demand. However, our relative market share has continued to strengthen when compared with other New Zealand ports.

Sawn timber exports decreased 3.3% in volume. However, pulp and paper exports increased 8.4% in volume.

Dairy product exports increased 6.3% to 1.2 million tonnes for the six month period. Frozen meat exports increased 10.8% in volume.

Imported fertilisers and dairy feed supplements decreased by 11.6% and 18.4% respectively. Grain imports increased 15.2% in volume. Imported oil products decreased 8.1%.

Ship visits decreased by 7.4%, from 842 to 780 for the period.

Subsidiary and Associate Company performance

Subsidiary and Associate Company earnings increased 17.2% over the period, driven by strong performances from Northport and PrimePort Timaru, with increases of 9.7% and 29.2% respectively. Northport has purchased a second harbour mobile crane to further expand its cargo handling capability.

Quality Marshalling, which is 100% owned by Port of Tauranga, also performed solidly in the first half of the financial year. Its earnings were 2.9% higher than the same period last year.

Coda Group improved its performance, with the last three months showing profitable results. However, earnings from Timaru Container Terminal decreased by 33.9% following shipping line service changes.

Partnerships provide for Port's future

Port of Tauranga and Tainui Group Holdings plan to form a 50:50 joint venture to develop the Ruakura Inland Port at Hamilton over the next few years.

The joint venture will take a 50 year ground lease and aims to open the inland port to coincide with the completion of the nearby Hamilton section of the Waikato Expressway by early 2022.

The 30 hectare Ruakura Inland Port is complemented by a 192 hectare logistics and industrial precinct. The joint venture follows the signing last year of a rail services agreement enabling Port of Tauranga cargo trains to call at the freight hub.



¹ Total exports for the six months ended 31 December 2018 were adjusted to 8.8 million tonnes following a change to the measurement of kiwifruit exports due to increased containerisation.

Investing for the next stage of cargo growth

Our ninth container crane was delivered in mid-February by our long-term partners Liebherr. We are removing a storage shed at the container terminal and the space will be converted into further container ground slots.

Our next significant capital expenditure will be extending the container terminal quay to the south. Port-owned land adjacent to the existing berths will be converted from cargo storage to a fourth container vessel berth, extending the 770 metre quay by up to 220 metres. We will soon lodge a resource consent application and hope to have construction completed in about two years.

Altogether, Port of Tauranga owns 190 hectares of land on both sides of Tauranga Harbour, with about 40 hectares still available for development.

Future stages of expansion will be driven by cargo volume growth and will primarily involve fully electric rail-mounted stacking cranes and additional ship-to-shore cranes.

Meanwhile, Port of Tauranga has acquired a former cold store, previously occupied by Fonterra, at the north end of the Mount Maunganui wharves. The 2.4 hectare warehouse will be converted into dry storage suitable for vehicle imports and other bulk cargoes. Fonterra will relocate its cold storage operations to existing facilities at the Tauranga Container Terminal.



Port farewells senior managers

In the next few months, two senior executives will retire from Port of Tauranga. Award-winning Chief Financial Officer, Steve Gray, will leave in June, and Corporate Services Manager, Sara Lunam, departs in March. They leave with our gratitude and appreciation for the strong and lasting contribution they have made to the Company over many years.

Simon Kebbelle will become Chief Financial Officer from July. Simon is currently Port of Tauranga's Finance and IT Manager, and Company Secretary. Simon joined the Company in 2003 after holding management positions with both Ernst & Young and PricewaterhouseCoopers in Singapore.

Blair Hamill has been appointed as Port of Tauranga's new Commercial Manager. Blair, who is currently Zespri International's Chief Global Supply Officer, joins the Company in July after 20 years with the world's largest marketer of kiwifruit.

Reducing carbon emissions

Measuring, understanding and reducing our carbon emissions is a big focus for the Port of Tauranga team.

We have gained certification of our carbon emissions through the Certified Emissions Measurement and Reduction Scheme (CEMARS). We are now working towards a short-term target of a 5% reduction in Scope 1 emissions per cargo tonne, with the goal of achieving net-zero emissions by 2050.



“

Our ninth container crane was delivered in mid-February by our long-term partners Liebherr.

We have established an “inset fund” to invest in meaningful sustainability initiatives within the business (rather than buying external carbon offsets). We have used this fund to subsidise the purchase of more expensive battery-hybrid straddle carriers. Three of these new models are being added to the container terminal fleet over the next few months. They will give us fuel savings of 30 to 40% compared with our current diesel-electric models.

Our next stage of expansion will utilise electric automated stacking cranes, avoiding increased diesel consumption from increased cargo volumes.

We have added another three electric or hybrid vehicles to our light vehicle fleet. For other operational vehicles, we source biodiesel from our suppliers Z Energy.

“

Port of Tauranga has the space and transport networks available to immediately accommodate Auckland's vehicle imports and other bulk cargoes.

Low sulphur fuel to improve air quality

Shipping air pollution will be reduced by new low sulphur fuel limits introduced internationally on 1 January 2020.

The sulphur limit was reduced from 3.5% to 0.5% by mass for marine fuels under Annex VI of the International Convention for the Prevention of Pollution from Ships (MARPOL). It aims to reduce carbon emissions and improve air quality around ports by requiring ships to switch to the lower sulphur fuel or be fitted with compliant exhaust gas cleaning systems.

Following supportive submissions from Port of Tauranga and other New Zealand ports, the Government announced in December that it would accede to the convention in late 2021, meaning domestic cargo ships will also be required to meet the standards from early 2022.

Upper North Island Supply Chain Working Group presents views

A Government-appointed working group has recommended that Ports of Auckland's cargoes be shifted to Northport in Whangarei.

Cabinet has requested the Ministry of Transport look closely at the proposal to reconfigure the Upper North Island supply chain.

Port of Tauranga's senior executives are now working with the Ministry, as well as counterparts at the other Upper North Island ports, to ensure a comprehensive report is presented to Cabinet in May.

Port of Tauranga has the space and transport networks available to immediately accommodate Auckland's vehicle imports and other bulk cargoes. The rail network between Tauranga and Auckland still has plenty of capacity, with the ability to double the current number of trains per day. Already, about half of all our cargo is transported by rail and about 95% of our Auckland-related containers are transferred this way.

Based on the analysis of international experts, we believe container throughput could reach 2.8 to 3.0 million TEUs in future through land reconfiguration, stacking cranes and other technology. Reclamation is not required and most of the cargo growth would be accommodated on rail to and from the port.

There is also the opportunity to factor in the current and future freight handling capacity of inland freight hubs in the Waikato region, such as the Ruakura Inland Port in Hamilton. Port of Tauranga is establishing a joint venture with Tainui Group Holdings to develop the inland port over the next two years.

Looking ahead

Fletcher Building plans to build a \$400 million plasterboard manufacturing and distribution facility in Tauranga over the next three years. The Winstone Wallboards operation will use Port of Tauranga for the delivery of raw materials.

The full impact on trade from the coronavirus outbreak is yet to be determined. We are in constant communication with our customers and the flow-on effect is likely to vary considerably by cargo.

Log exports have been hit hardest, as volumes were already impacted by lower international prices and demand since the middle of 2019. Log inventories in China have surged due to the extended Chinese New Year shutdown. There have been shipping cancellations and delays as a result and we expect this to continue into March. Port of Tauranga continues to be well positioned to weather market fluctuations, as our customers are primarily large forest owners, who are less susceptible to commodity pricing volatility than smaller, at-wharf-gate log exporters.



The trade outlook for the second half of the 2020 financial year remains uncertain and dependent on the duration of the market shutdown in China and any slowdown in the other countries taking extreme measures to reduce coronavirus risk.

Given the market uncertainty we are reducing our full year profit guidance from \$96-\$101 million to \$94-\$99 million.

David Pilkington
CHAIR

Mark Cairns
CHIEF EXECUTIVE

Port of Tauranga sponsors project to protect native fauna

“*Maungatapu Primary School pupils will get a helping hand to protect native crabs in Tauranga Harbour thanks to Port of Tauranga.*”



L to R: Maungatapu School Principal Tane Bennett, science teacher Chris Dixon, pupil Amorangi Walker, Ngai Te Rangī's Pia Bennett, Ngati Ranginui's Carlton Bidais, pupil Pia Kuka and Port of Tauranga's Property & Infrastructure Manager Dan Kneebone.

The Pāpaka project is supported by Port of Tauranga and local iwi Ngāi Te Rangī and Ngāti Ranginui. A \$5,000 donation will help school pupils research and protect the creatures that live in Tauranga Moana with an emphasis on protecting the native Pāpaka o Rangataua.

Maungatapu School Principal, Tane Bennett, believes that if the pāpaka are healthy, so are the people.

“The pāpaka are iconic to the tangata whenua of this community. It is part of their identity and important for the children to learn about,” says Tane.

The fund will help the school provide science and technology resources to solve real life scenarios such as identifying and managing invasive species.

“Our first learning project will be to design and build traps to try and catch an Asian paddle crab,” says Tane.



New container crane arrives at Port of Tauranga

“ *Port of Tauranga’s newest container crane has arrived.* ”

The Super Post-Panamax class ship-to-shore crane will be assembled over the next two months before being commissioned in April. It is the Port’s ninth crane and its biggest. It can service ships up to 49 metres or

19 containers wide, compared with the 18 container reach of our other large cranes.

The crane arrived on a special purpose delivery ship from crane manufacturer Liebherr’s factory in Ireland.

Consolidated Interim Financial Statements

For the six months ended 31 December 2019
Port of Tauranga Limited and Subsidiaries

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PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	(Unaudited) Six Months Ended 31 Dec 2019 Group NZ\$000	(Unaudited) Six Months Ended 31 Dec 2018 Group NZ\$000	(Audited) Year Ended 30 Jun 2019 Group NZ\$000
Total operating revenue	154,774	152,996	313,263
Contracted services for port operations	(31,814)	(32,292)	(63,775)
Employee benefit expenses	(20,170)	(18,939)	(38,275)
Direct fuel and power expenses	(5,203)	(5,291)	(10,752)
Maintenance of property, plant and equipment	(6,834)	(4,889)	(11,979)
Other expenses	(7,678)	(7,680)	(15,312)
Operating expenses	(71,699)	(69,091)	(140,093)
Results from operating activities	83,075	83,905	173,170
Depreciation and amortisation	(14,669)	(13,830)	(27,585)
Impairment of property, plant and equipment	0	0	(499)
	(14,669)	(13,830)	(28,084)
Operating profit before finance costs, share of profit from Equity Accounted Investees and taxation	68,406	70,075	145,086
Finance income	132	185	417
Finance expenses (refer note 7)	(9,763)	(9,071)	(18,594)
Net finance costs	(9,631)	(8,886)	(18,177)
Share of profit from Equity Accounted Investees	5,895	4,770	8,100
Profit before income tax	64,670	65,959	135,009
Income tax expense	(16,354)	(16,972)	(34,432)
Profit for the period	48,316	48,987	100,577
Basic earnings per share (cents)	7.2	7.3	15.0
Diluted earnings per share (cents)	7.1	7.2	14.8

These statements are to be read in conjunction with the notes on pages 14 to 18.

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	(Unaudited) Six Months Ended 31 Dec 2019 Group NZ\$000	(Unaudited) Six Months Ended 31 Dec 2018 Group NZ\$000	(Audited) Year Ended 30 Jun 2019 Group NZ\$000
Profit for the period	48,316	48,987	100,577
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Cash flow hedge – changes in fair value	210	(2,997)	(8,942)
Cash flow hedge – reclassified to profit or loss	851	737	1,629
Share of net change in cash flow hedge reserves of Equity Accounted Investees	96	(79)	(308)
	1,157	(2,339)	(7,621)
Items that will never be reclassified to profit or loss:			
Asset revaluation, net of tax	0	0	72,129
Share of net change in revaluation reserves of Equity Accounted Investees	543	288	448
	543	288	72,577
Total other comprehensive income	1,700	(2,051)	64,956
Total comprehensive income	50,016	46,936	165,533

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Share Capital Group NZ\$000	Share Based Payment Reserve Group NZ\$000	Hedging Reserve Group NZ\$000	Revaluation Reserve Group NZ\$000	Retained Earnings Group NZ\$000	Total Group NZ\$000
Balance at 30 June 2018	70,754	2,047	(9,354)	940,554	117,979	1,121,980
Adjustment on adoption of NZ IFRS 9	0	0	0	0	(274)	(274)
Profit for the period	0	0	0	0	48,987	48,987
Total other comprehensive income	0	0	(2,339)	288	0	(2,051)
Total comprehensive income	0	0	(2,339)	288	48,987	46,936
Decrease in share capital	(1,011)	0	0	0	0	(1,011)
Dividends paid during the period (refer note 8)	0	0	0	0	(81,632)	(81,632)
Equity settled share based payment accrual	0	926	0	0	0	926
Total transactions with owners in their capacity as owners	(1,011)	926	0	0	(81,632)	(81,717)
Balance at 31 December 2018	69,743	2,973	(11,693)	940,842	85,060	1,086,925
Profit for the period	0	0	0	0	51,590	51,590
Total other comprehensive income	0	0	(5,282)	72,289	0	67,007
Total comprehensive income	0	0	(5,282)	72,289	51,590	118,597
Increase in share capital	14	0	0	0	0	14
Dividends paid during the period (refer note 8)	0	0	0	0	(40,808)	(40,808)
Equity settled share based payment accrual	0	1,112	0	0	0	1,112
Revaluation surplus transferred to retained earnings on asset disposal	0	0	0	0	45	45
Total transactions with owners in their capacity as owners	14	1,112	0	0	(40,763)	(39,637)
Balance at 30 June 2019	69,757	4,085	(16,975)	1,013,131	95,887	1,165,885
Profit for the period	0	0	0	0	48,316	48,316
Total other comprehensive income	0	0	1,157	543	0	1,700
Total comprehensive income	0	0	1,157	543	48,316	50,016
Increase in share capital	55	0	0	0	0	55
Dividends paid during the period (refer note 8)	0	0	0	0	(83,676)	(83,676)
Equity settled share based payment accrual	0	832	0	0	0	832
Shares issued upon vesting of management long term incentive plan	0	(1,103)	0	0	(141)	(1,244)
Total transactions with owners in their capacity as owners	55	(271)	0	0	(83,817)	(84,033)
Balance at 31 December 2019	69,812	3,814	(15,818)	1,013,674	60,386	1,131,868

These statements are to be read in conjunction with the notes on pages 14 to 18.

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	(Unaudited) 31 Dec 2019 Group NZ\$000	(Unaudited) 31 Dec 2018 Group NZ\$000	(Audited) 30 Jun 2019 Group NZ\$000
Assets			
Property, plant and equipment (refer note 9)	1,567,172	1,454,581	1,531,211
Intangible assets	18,737	18,212	19,028
Investments in Equity Accounted Investees	133,169	133,720	132,731
Receivables	12	24	12
Total non current assets	1,719,090	1,606,537	1,682,982
Cash and cash equivalents	5,683	3,190	3,903
Receivables and prepayments	61,076	57,963	60,610
Inventories	855	528	1,366
Total current assets	67,614	61,681	65,879
Total assets	1,786,704	1,668,218	1,748,861
Equity			
Share capital	69,812	69,743	69,757
Share based payment reserve	3,814	2,973	4,085
Hedging reserve	(15,818)	(11,693)	(16,975)
Revaluation reserve	1,013,674	940,842	1,013,131
Retained earnings	60,386	85,060	95,887
Total equity	1,131,868	1,086,925	1,165,885
Liabilities			
Loans and borrowings (refer note 10)	327,336	175,089	124,213
Derivative financial instruments	20,183	14,022	20,895
Provisions	1,828	1,836	1,783
Deferred tax liabilities	65,466	68,874	66,389
Lease liability	23,702	0	0
Total non current liabilities	438,515	259,821	213,280
Loans and borrowings (refer note 10)	175,000	280,000	322,000
Derivative financial instruments	431	946	1,138
Trade and other payables	33,891	33,770	33,688
Revenue received in advance	347	345	260
Provisions	1,386	1,531	2,178
Provision for tax	4,869	4,880	10,432
Lease liability (refer note 11)	397	0	0
Total current liabilities	216,321	321,472	369,696
Total liabilities	654,836	581,293	582,976
Total equity and liabilities	1,786,704	1,668,218	1,748,861
Net tangible assets per share (dollars per share)	1.66	1.59	1.71

These statements are to be read in conjunction with the notes on pages 14 to 18.

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	(Unaudited) Six Months Ended 31 Dec 2019 Group NZ\$000	(Unaudited) Six Months Ended 31 Dec 2018 Group NZ\$000	(Audited) Year Ended 30 Jun 2019 Group NZ\$000
Cash flows from operating activities			
Receipts from customers	161,411	153,247	316,172
Interest received	132	184	415
Payments to suppliers and employees	(79,593)	(75,450)	(151,448)
Taxes paid	(23,252)	(22,485)	(34,680)
Interest paid	(8,888)	(8,495)	(18,270)
Net cash inflow from operating activities	49,810	47,001	112,189
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	31	7	58
Finance lease payments received, including interest	7	7	13
Repayment of advances from Equity Accounted Investees	0	200	1,000
Dividends from Equity Accounted Investees	6,096	5,591	9,840
Purchase of property, plant and equipment	(25,172)	(22,291)	(41,125)
Purchase of computer software assets	(347)	(115)	(1,058)
Interest capitalised on property, plant and equipment	(199)	(138)	(274)
Total net cash used in investing activities	(19,584)	(16,739)	(31,546)
Cash flows from financing activities			
Proceeds from borrowings	156,128	95,111	44,250
Repurchase of shares	(716)	(1,386)	(1,386)
Repayment of borrowings	(100,000)	(45,001)	(3,000)
Repayment of lease liability	(182)	0	0
Dividends paid	(83,676)	(81,632)	(122,440)
Net cash used in financing activities	(28,446)	(32,908)	(82,576)
Net increase/(decrease) in cash held	1,780	(2,646)	(1,933)
Add opening cash brought forward	3,903	5,836	5,836
Ending cash and cash equivalents	5,683	3,190	3,903

	(Unaudited) Six Months Ended 31 Dec 2019 Group NZ\$000	(Unaudited) Six Months Ended 31 Dec 2018 Group NZ\$000	(Audited) Year Ended 30 Jun 2019 Group NZ\$000
RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period	48,316	48,987	100,577
Adjustments for non cash and non operating items			
Depreciation and amortisation expense	14,669	13,830	27,585
Decrease in deferred taxation expense	(1,335)	(731)	(1,017)
Share of surpluses retained by Equity Accounted Investees	(5,895)	(4,770)	(8,100)
Other	408	966	2,662
	7,847	9,295	21,130
Less movements in working capital	(6,353)	(11,281)	(9,518)
Net cash flows from operating activities	49,810	47,001	112,189

These statements are to be read in conjunction with the notes on pages 14 to 18.

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

1 REPORTING ENTITY

Port of Tauranga Limited (the Parent Company) is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Parent Company, which is designated as profit-oriented for financial reporting purposes, is an issuer in terms of the Financial Reporting Act 2013.

The unaudited interim financial statements (the financial statements) for Port of Tauranga Limited comprise the Port of Tauranga Limited, its Subsidiaries, and the Group's interest in Equity Accounted Investees (together referred to as the Group).

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and New Zealand International Accounting Standard (NZ IAS) 34 Interim Financial Reporting. They do not include all information required for full annual financial statements and should be read in conjunction with the annual financial statements and related notes included in Port of Tauranga Limited's Integrated Annual Report for the year ended 30 June 2019.

3 SIGNIFICANT ACCOUNTING POLICIES

Other than as set out in note 11 in regard to NZ IFRS 16 adoption, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2019.

4 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with NZ IAS 34 requires management 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 preparing these financial statements, other than set out in note 11 in regard to NZ IFRS 16, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty, were the same as those applied to the Group's consolidated financial statements for the year ended 30 June 2019.

5 SEGMENT INFORMATION

The Group determines and presents operating segments based on the information that is internally provided to the Chief Executive, who is the Group's Chief Operating Decision Maker (CODM), as defined by NZ IFRS 8 Operating Segments.

The Group operates in three main reportable segments, being:

- **Port Operations:** This consists of providing and managing port services, and cargo handling facilities through the Port of Tauranga Limited. Port terminals and bulk operations have been aggregated together within the Port Operations segment, due to the similarities in economic characteristics, customers, nature of products and processes, and risks.
- **Property Services:** This consists of managing and maintaining the Port of Tauranga Limited's property assets.
- **Marshalling Services:** This consists of the contracted terminal operations and marshalling activities of Quality Marshalling (Mount Maunganui) Limited.

The three main business segments are managed separately as they provide different services to customers and have their own operational and marketing requirements.

The remaining activities of the Group are not allocated to individual business segments.

The Group operates in one geographical area, that being New Zealand.

Due to the significant shared cost base of the Port activities, operating costs, measures of profitability, assets and liabilities are aggregated and are not reported to the CODM at a segment level, but rather at a port level, as all business decisions are made at a "whole port level".

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

5 SEGMENT INFORMATION (CONTINUED)

SIX MONTHS ENDED 31 DECEMBER 2019	Port Operations Group NZ\$000	Property Services Group NZ\$000	Marshalling Services Group NZ\$000	Unallocated ⁽¹⁾ Group NZ\$000	Inter Segment Group NZ\$000	Group NZ\$000
Revenue (external)	137,402	15,030	2,342	0	0	154,774
Inter segment revenue	0	48	6,374	0	(6,422)	0
Total segment revenue	137,402	15,078	8,716	0	(6,422)	154,774
Other income and expenditure:						
Share of profit from Equity Accounted Investees	0	0	0	5,895	0	5,895
Interest income	0	0	0	132	0	132
Interest expense	0	0	0	(9,699)	0	(9,699)
Depreciation and amortisation expense	0	0	(453)	(14,216)	0	(14,669)
Other unallocated expenditure	0	0	(6,416)	(71,769)	6,422	(71,763)
Income tax expense	0	0	(517)	(15,837)	0	(16,354)
Total other income and expenditure	0	0	(7,386)	(105,494)	6,422	(106,458)
Total segment result	137,402	15,078	1,330	(105,494)	0	48,316

⁽¹⁾Operating costs are not allocated to individual business segments within the Parent Company.

SIX MONTHS ENDED 31 DECEMBER 2018	Port Operations Group NZ\$000	Property Services Group NZ\$000	Marshalling Services Group NZ\$000	Unallocated ⁽¹⁾ Group NZ\$000	Inter Segment Group NZ\$000	Group NZ\$000
Revenue (external)	136,330	14,277	2,389	0	0	152,996
Inter segment revenue	0	32	6,115	0	(6,147)	0
Total segment revenue	136,330	14,309	8,504	0	(6,147)	152,996
Other income and expenditure:						
Share of profit from Equity Accounted Investees	0	0	0	4,770	0	4,770
Interest income	0	0	0	185	0	185
Interest expense	0	0	0	(9,005)	0	(9,005)
Depreciation and amortisation expense	0	0	(442)	(13,388)	0	(13,830)
Other unallocated expenditure	0	0	(6,266)	(69,038)	6,147	(69,157)
Income tax expense	0	0	(503)	(16,469)	0	(16,972)
Total other income and expenditure	0	0	(7,211)	(102,945)	6,147	(104,009)
Total segment result	136,330	14,309	1,293	(102,945)	0	48,987

⁽¹⁾Operating costs are not allocated to individual business segments within the Parent Company.

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

6 OPERATING REVENUE

	Six Months Ended 31 Dec 2019 Group NZ\$000	Six Months Ended 31 Dec 2018 Group NZ\$000
Port services revenue	137,402	136,330
Rental revenue	15,030	14,277
Marshalling services revenue	2,342	2,389
Total operating revenue	154,774	152,996

7 FINANCE EXPENSES

	Six Months Ended 31 Dec 2019 Group NZ\$000	Six Months Ended 31 Dec 2018 Group NZ\$000
Interest expense on borrowings	9,898	9,143
Less:		
Interest capitalised to property, plant and equipment	(199)	(138)
	9,699	9,005
Ineffective portion of changes in fair value of cash flow hedges	13	2
Amortisation of interest rate collar premium	43	43
Fair value movement on currency derivative	8	21
Total finance expenses	9,763	9,071

8 DIVIDENDS

The following dividends were paid by the Group:

	Six Months Ended 31 Dec 2019 Group NZ\$000	Six Months Ended 31 Dec 2018 Group NZ\$000
Final dividend of 7.3 cents per share (2018: 7.0 cents per share)	49,661	47,618
Special dividend of 5.0 cents per share (2018: 5.0 cents per share)	34,015	34,014
Total dividends paid	83,676	81,632

9 PROPERTY, PLANT AND EQUIPMENT**Acquisitions and Disposals**

During the six months ended 31 December 2019, the Group acquired assets with a cost of \$25.606 million (six months ended 31 December 2018: \$21.713 million).

10 LOANS AND BORROWINGS

	31 Dec 2019 Carrying Value Group NZ\$000	31 Dec 2018 Carrying Value Group NZ\$000
Commercial papers	170,000	180,000
Standby revolving cash advance facility	252,000	150,000
Fixed rate bonds	75,000	125,000
Multi option facility	5,000	0
Advances from employees	336	89
Total loans and borrowings	502,336	455,089
Current	175,000	280,000
Non current	327,336	175,089
Total loans and borrowings	502,336	455,089

As at 31 December 2019 the Group had \$170 million of commercial paper debt that is classified within current liabilities (2018: \$180 million). Due to this classification, the Group's current liabilities exceed the Group's current assets. Despite this fact, the Group does not have any liquidity or working capital concerns as a result of the commercial paper debt being interchangeable with direct borrowings within the \$480 million (\$2018: \$430 million) standby revolving cash advance facility which is a term facility.

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

11 LEASES

NZ IFRS 16 Leases replaces NZ IAS 17 Leases and removes the classification of leases as either operating leases or finance leases, for the lessee, and consequently all leases (other than short term or low value leases), are recognised on the balance sheet. This has resulted in the Group recognising right-of-use assets and related lease liabilities on the statement of financial position. As a result, payments for leases previously classified as operating leases, which include leases of land and buildings, and vehicles, have been reclassified from operating expenses to depreciation and interest expense. Lessor accounting is substantially unchanged from accounting under NZ IAS 17.

The Group has adopted NZ IFRS 16 retrospectively from 1 July 2019 but has not restated comparatives for previous periods. The reclassifications and the adjustments arising from the new standard are therefore recognised in the opening balance sheet on 1 July 2019. The Group has also adopted an exemption for short term and low value leases.

The lease liabilities were measured at the present value of the remaining lease payments. Lease payments are discounted at the Group's incremental borrowing rate as at 1 July 2019. The weighted average incremental borrowing rate applied to lease liabilities at 1 July 2019 was 4.0%. The right-of-use assets were measured at the amount equal to the corresponding lease liability, with no change in net assets.

The judgements and estimates made when adopting NZ IFRS 16 include:

- incremental borrowing rate, being the rate that the Group have to pay to borrow the funds necessary to obtain an asset of a similar value with similar terms and conditions; and
- lease terms, including any right of renewal where it is reasonably certain they will be exercised.

The impact of adoption of NZ IFRS 16 on the Group's statement of financial position is summarised in the table below:

	Six Months Ended 31 Dec 2019 Group NZ\$000	1 July 2019 NZ\$000
Right-of-use assets	23,895	24,238
Lease liability	(24,099)	(24,238)

When compared to the accounting policies in the prior comparative period, the adoption of NZ IFRS 16 on the Groups income statement for the six months ended 31 December 2019 is summarised in the table below:

	Pre NZ IFRS 16 NZ\$000	Adjustments NZ\$000	Post NZ IFRS 16 NZ\$000
Other expenses	8,330	(652)	7,678
Depreciation and amortisation	14,297	372	14,669
Finance expenses	9,279	484	9,783
Income tax expense	16,411	(57)	16,354

12 RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances with related parties:

	Six Months Ended 31 Dec 2019 Group NZ\$000	Six Months Ended 31 Dec 2018 Group NZ\$000
Transactions with Equity Accounted Investees		
Services provided to Port of Tauranga Limited	265	234
Services provided by Port of Tauranga Limited	2,904	1,391
Accounts receivable by Port of Tauranga Limited	373	224
Accounts payable by Port of Tauranga Limited	65	9
Advances by Port of Tauranga Limited	5,319	6,119
Services provided by Quality Marshalling (Mount Maunganui) Limited	1,919	1,920
Services provided to Quality Marshalling (Mount Maunganui) Limited	14	0
Accounts receivable by Quality Marshalling (Mount Maunganui) Limited	419	393
Accounts payable by Quality Marshalling (Mount Maunganui) Limited	2	0

During the six months ended 31 December 2019, the Group entered into transactions with companies in which Group Directors hold directorships. These directorships have not resulted in the Group having significant influence or control over the operations, policies, or key decisions of these companies.

No related party debts have been written off or forgiven during the period.

Controlling Entity

Quayside Securities Limited owns 54.14% (as at 31 December 2018: 54.14%) of the issued ordinary shares in Port of Tauranga Limited.

Quayside Securities Limited is beneficially owned by Bay of Plenty Regional Council, the Ultimate Controlling Party. Transactions with the Ultimate Controlling Party during the period include services provided to Port of Tauranga Limited \$17,970 (six months ended 31 December 2018: \$15,611).

Transactions with Key Management Personnel

The Group does not provide any non cash benefits to Directors in addition to their Directors' fees.

	Six Months Ended 31 Dec 2019 Group NZ\$000	Six Months Ended 31 Dec 2018 Group NZ\$000
Directors		
Directors' fees recognised during the period	382	367
Executive Officers		
Salaries and short term employee benefits recognised during the period	1,708	1,845
Share based payments recognised during the period	257	286

PORT OF TAURANGA LIMITED AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

13 COMMITMENTS

	Six Months Ended 31 Dec 2019 Group NZ\$000	Six Months Ended 31 Dec 2018 Group NZ\$000
Capital commitments		
Estimated capital commitments for the Group contracted for at the reporting date but not provided for	3,270	14,598

14 FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of financial instruments that are not traded in active markets (for example over-the-counter derivatives) are determined by using market accepted valuation techniques incorporating observable market data about conditions existing at each reporting date.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the reporting date.

Derivative financial instruments are categorised as Level 2 in the fair value measurement hierarchy.

15 SUBSEQUENT EVENTS

An interim dividend of 6.0 cents per share has been declared subsequent to reporting date.

Independent Review Report



To the Shareholders of Port of Tauranga Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 10 to 18 do not:

- i. Present, in all material respects the Group's financial position as at 31 December 2019 and its financial performance and cash flows for the 6 month period ended on that date in compliance with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- The consolidated statement of financial position as at 31 December 2019;
- The consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Port of Tauranga Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- The preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- Implementing necessary internal control to enable the preparation of an interim consolidated financial statements that is free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

Brent Manning

KPMG

On behalf of the Auditor-General

Tauranga, New Zealand

27 February 2020

PORT OF TAURANGA LIMITED

Company Directory

DIRECTORS

D A Pilkington
Chair

A M Andrew

K R Ellis

J C Hoare

A R Lawrence

D W Leeder

Sir Robert McLeod

EXECUTIVE

M C Cairns
Chief Executive

S G Gray
Chief Financial Officer

D A Kneebone
Property & Infrastructure Manager

S M Lunam
Corporate Services Manager

L E Sampson
Chief Operating Officer

S R Kebbell
Company Secretary

REGISTERED OFFICE

Salisbury Avenue
Mount Maunganui

Private Bag 12504
Tauranga Mail Centre
Tauranga 3143
New Zealand

Telephone 07 572 8899
Facsimile 07 572 8800

Email marketing@port-tauranga.co.nz
Website www.port-tauranga.co.nz

AUDITORS

KPMG
Tauranga
(On behalf of the Auditor-General)

SOLICITORS

Holland Beckett Law
Tauranga

BANKERS

ANZ National Bank Limited

Bank of New Zealand

Commonwealth Bank of Australia

MUFG Bank, Limited (formerly known as
The Bank of Tokyo-Mitsubishi UFJ Limited)

CREDIT RATING AGENCY

Standard & Poor's (S&P)
Australia
Port of Tauranga Limited's rating: A-/Stable/A-2

SHARE REGISTRY

For enquiries about share transactions, change of address or dividend payments contact:

Link Market Services Limited
PO Box 91976
Victoria Street West
Auckland 1142

Telephone 09 375 5998
Facsimile 09 375 5990

Email enquiries@linkmarketservices.co.nz
Website www.linkmarketservices.co.nz

Copies of the Annual and Interim Reports are available from our website.

FINANCIAL CALENDAR

20 March 2020	Interim dividend payment
30 June 2020	Financial year end
28 August 2020	Annual results announcement
October 2020	Final dividend payment
30 October 2020	Annual Meeting
26 February 2021	Half year results announced