



"Being part of one team without limits or boundaries provides a great safety culture where everyone strives to do the right thing, even when no one is watching. This allows everyone to go home to their families at the end of their working day."

ROCHELLE

"The opportunity to transfer between departments provides chances to upskill. We are learning new things every day, regardless of how long we have been in the job. Being part of a team that enjoys their job means we work together well and respect one another."

LAWRENCE



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## INTERIM REPORT

FOR THE SIX MONTH PERIOD  
ENDED 31 DECEMBER 2019

### GROUP COMPANIES

**Parent Company**  
South Port New Zealand Limited  
**Subsidiary**  
Awarua Holdings Limited

### DIRECTORS

**Rex Chapman**  
Chairman  
**Philip Cory-Wright**  
**Thomas Foggo**  
**Nicola Greer**  
**Clare Kearney**  
**Jeremy McClean**

### CORPORATE EXECUTIVES

**Nigel Gear**  
Chief Executive  
**Geoff Finnerty**  
Port General Manager  
**Jamie May**  
Business Development Manager  
**Hayden Mikkelsen**  
Container Manager  
**Frank O'Boyle**  
Infrastructure Manager  
**Lara Stevens**  
Finance Manager  
**Murray Wood**  
Warehousing Manager  
**Helen Young**  
Human Resources Manager



## Interim Report

### FINANCIAL PERFORMANCE

South Port had a steady but pleasing start to the financial year. Bulk cargoes, particularly logs and fertiliser came under pressure. This was balanced out by a strong performance in the cold storage operation as a result of recent capital investments allowing an increase to blast freezing capacity.

South Port's NPAT for the first six months of FY2020 was \$4.6 million, consistent with the previous corresponding period in FY2019. Several factors impacted on this interim result including:

- Particularly wet conditions resulted in lower than expected volumes of inbound fertiliser being received in the first six months.
- High log prices in China led to an oversupply of softwood into this market. This has now been exacerbated as a result of the bark beetle infestation in Europe, pushing large volumes of spruce logs into this market. These two factors have seen a reduction of log exports through the Port.
- The installation of a new blast freezer has improved the efficiency and capacity of this operation which has allowed the introduction of new customers.

The reported FY2020 interim profit should be read in conjunction with the Outlook section of this Report where a year end NPAT forecast range is provided.

### CARGO

Total cargo activity was 1,687,000 tonnes compared with 1,772,000 tonnes in the prior year interim period. This represents a reduction in cargo flows of 85,000 tonnes or less than 5%. Some bulk cargoes were negatively impacted as noted above with fertiliser (-51,000) and logs (-84,000) however there were some positive movements which included increases in petroleum products (+13,000) and alumina (+20,000).

Containerised cargo increased 7% to 21,000 TEU. This improvement was due to a number of cargo categories increasing which is a pleasing result.

The Company achieved a milestone of 50,000 TEU in the calendar year which was a strategic goal set five years ago at the time of the purchase of the second crane.

### OPERATIONAL EVENTS

#### Cold Stores

The benefits of the recent capital expenditure on the cold stores load in/load out area and the installation of a new blast freezer are now being realised. Increased efficiency, safety and capacity have allowed the Port to increase throughput and introduce more customers to our blast freezing facility. This is consistent with our purpose which is to facilitate the best logistic solutions for the Region.

#### Review and Audit of Pilotage Practices

South Port has undertaken an external review of pilotage practices at Bluff. This was last carried out in 2003 and it is timely that this review is done to ensure that our systems are current/up to modern day practice for this very important aspect of the Port's operation.

#### Maintenance

The Port is making pleasing progress with the installation of the Impressed Current Cathodic Protection (ICCP) system on the Access Bridge. After a successful trial on Bay 5, two further bays have been completed in the first six months of this financial year with work now beginning on the next two bays. The expectation is that four bays will be completed each summer (14 bays in total) with the work expected to be completed by FY2022.

#### Container Terminal Expansion

A \$1.2M container terminal expansion was successfully completed in December 2019. This expansion was undertaken to alleviate some of the stress caused by the 25% growth in volumes experienced in FY2019.

#### Intermodal Freight Centre (IFC)

The IFC remains an important part of the container supply chain in the Southland landscape. Adjacent to the KiwiRail container transfer yard in Invercargill, this operation has proven to be successful and works extremely well for our customers providing the flexibility to choose port of origin/destination and mode of transport for the movement of containers in and out of the region.

### CUSTOMERS

#### Open Country Dairy (OCD)

OCD has completed the construction of their new 8,000 m2 warehouse located at Awarua. This warehouse will primarily be used to store ingredient products but will also hold finished goods for a short period before being transported to the Port for packing for export. The existing South Port owned warehouse on the Port where ingredients are currently stored will now be marketed to other potential customers.

#### International Maritime Organisation (IMO) – MARPOL Annex VI

From 1 January 2020, the sulphur content in fuel oil used on board ships has been reduced to 0.50% (down from 3.5%) due to new regulations implemented by the IMO. Although New Zealand is not a signatory to this treaty (planning to join in late 2021) most if not all international ships trading in our waters will have to comply with the new regulations from that date. It is pleasing that the Mediterranean Shipping Company, calling to Bluff with their weekly Capricorn container service, has invested heavily worldwide fitting scrubbers to their vessels in order to comply with these MARPOL regulations.

#### New Zealand Aluminium Smelter (NZAS)

The issues around the strategic review have been well documented in recent times.

Since 2008 NZAS has paid close to \$200M of increased transmission pricing costs, most of which is used for upgrades in the North Island (currently pay between \$65M and \$70M annually). This pricing regime needs to be addressed by the Electricity Authority now to allow NZAS to become internationally competitive once again and remain an important part of the Southland landscape.

An update on the strategic review of NZAS is expected at the end of the first quarter 2020.

#### OMV – Natural Gas Exploration

OMV began drilling an exploratory well in the Great South Basin in early January. This operation takes approximately 40 to 50 days therefore all support services are being run out of their existing base in Taranaki. Should OMV be successful in their search for natural gas then South Port is well positioned to be involved in supporting the next stages of the development.

# Financial Statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SIX MONTH PERIOD ENDED 31 DECEMBER 2019	Unaudited 31/12 2019 \$000's	Unaudited 31/12 2018 \$000's	Audited Year to 30/06/19 \$000's
Total operating revenues from port services	21,583	20,918	43,950
Total operating expenses	(13,140)	(12,489)	(25,768)
Gross profit	8,443	8,429	18,182
Administrative expenses	(1,871)	(1,756)	(3,802)
Operating profit before financing costs	6,572	6,673	14,380
Financial income	66	10	25
Financial expenses	(200)	(312)	(746)
Net financing costs	(134)	(302)	(721)
Other income	2	23	51
<b>Surplus before income tax</b>	<b>6,440</b>	<b>6,394</b>	<b>13,710</b>
Income tax	(1,884)	(1,843)	(3,923)
<b>Net surplus after income tax</b>	<b>4,556</b>	<b>4,551</b>	<b>9,787</b>
Other comprehensive income	–	–	–
<b>Total comprehensive surplus/(loss) after income tax</b>	<b>4,556</b>	<b>4,551</b>	<b>9,787</b>
Basic earnings per share	\$0.174	\$0.173	\$0.373

## CONSOLIDATED STATEMENT OF CASH FLOWS

SIX MONTH PERIOD ENDED 31 DECEMBER 2019	Unaudited 31/12 2019 \$000's	Unaudited 31/12 2018 \$000's	Audited Year to 30/06/19 \$000's
Cash flows from operating (note 7)	3,847	3,417	13,554
Cash flows from investing	(2,533)	(3,550)	(6,098)
Cash flows from financing	(1,353)	47	(7,021)
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>(39)</b>	<b>(86)</b>	<b>1,426</b>

# Notes to the Financial Statements

FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2019

## 1 | ACTIVITIES OF SOUTH PORT GROUP

The Group is primarily involved in providing and managing port and warehousing services.

## 2 | ACCOUNTING POLICIES

The Group is a Financial Markets Conduct (FMC) reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. These financial statements comply with these Acts and have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities. These financial statements comply with International Financial Reporting Standards (IFRS). There has been no change in accounting policies. All policies have been applied on a consistent basis with the most recent annual report.

## 3 | AMENDMENTS TO NZ IFRS

One new standard is effective for annual periods ending 30 June 2020, being NZ IFRS 16: Leases.

NZ IFRS 16 has been adopted however the impact to the Group is immaterial. The right-to-use asset, lease liability, interest and depreciation will be recognised in the Statement of Comprehensive Income and Statement of Financial Position at year end (30 June 2020).

## 4 | TAXATION

Income tax expense comprises current and deferred tax at the company tax rate of 28%. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019	Unaudited 31/12 2019 \$000's	Unaudited 31/12 2018 \$000's	Audited Year to 30/06/19 \$000's
<b>TOTAL EQUITY</b>	<b>42,729</b>	<b>39,758</b>	<b>43,026</b>
<b>Non-Current Assets</b>			
Property, plant & equipment	50,225	49,091	49,571
Total non-current assets	50,225	49,091	49,571
<b>Current Assets</b>			
Cash and cash equivalents	1,387	905	1,426
Trade and other receivables	7,682	7,031	5,702
Total current assets	9,069	7,936	7,128
<b>Total assets</b>	<b>59,294</b>	<b>57,027</b>	<b>56,699</b>
<b>Non-Current Liabilities</b>			
Employee entitlements	35	39	19
Deferred tax liability	19	219	48
Loans and borrowings	10,500	–	7,000
Financial liabilities	542	296	530
Total non-current liabilities	11,096	554	7,597
<b>Current Liabilities</b>			
Trade and other payables	3,843	3,065	3,152
Employee entitlements	1,230	775	1,172
Provision for taxation	395	653	1,682
Loans and borrowings	1	12,100	–
Financial liabilities	–	122	70
Total current liabilities	5,469	16,715	6,076
<b>Total liabilities</b>	<b>16,565</b>	<b>17,269</b>	<b>13,673</b>
<b>TOTAL NET ASSETS</b>	<b>42,729</b>	<b>39,758</b>	<b>43,026</b>
Net asset backing per share	\$1.63	\$1.52	\$1.64

## 5 | SEGMENTAL REPORTING

The South Port Group operates in the Port Industry in Southland, New Zealand, and therefore only has one reportable segment and one geographical area based on the information as reported to the chief operating decision maker on a regular basis. South Port engaged with one major customer who contributed individually greater than 10% of its total revenue for the period ended 31 December 2019. This customer contributed \$5.06 million for the six months ended 31 December 2019 (2018: \$4.22 million).

## 6 | STATEMENT OF CHANGES IN EQUITY

SIX MONTH PERIOD ENDED 31 DECEMBER 2019	Unaudited 31/12 2019 \$000's	Unaudited 31/12 2018 \$000's	Audited Year to 30/06/19 \$000's
<b>Total equity at beginning of the period</b>	<b>43,026</b>	<b>40,060</b>	<b>40,060</b>
Profit/(loss) after income tax	4,556	4,551	9,787
Other comprehensive income	–	–	–
<b>Total comprehensive surplus</b>	<b>4,556</b>	<b>4,551</b>	<b>9,787</b>
Distributions to shareholders	(4,853)	(4,853)	(6,821)
<b>Total equity at end of the period</b>	<b>42,729</b>	<b>39,758</b>	<b>43,026</b>

## 7 | NET CASH FLOW FROM OPERATING ACTIVITIES

Surplus after taxation	4,556	4,551	9,787
Add/(less) items classified as investing/financing activities	–	–	–
Add/(less) non-cash items	1,792	1,824	3,762
Add/(less) movement in working capital	(2,501)	(2,958)	5
<b>Net cash provided by operating activities</b>	<b>3,847</b>	<b>3,417</b>	<b>13,554</b>

## HEALTH, SAFETY AND WELLBEING (HSW)

The HSW team began the first of many Bowtie risk assessments this financial year. These assessments are currently focused on critical risks and developing controls to mitigate these risks or alternatively to "fail safely". To fail safely is important as controls need to be put in place for when accidents do occur to protect our employees from harm. These sessions involve all staffing levels and have been very successful to date with a number of positive outcomes being actioned as a result.

It is pleasing to note that the Company's Lost Time Injury Frequency Rate (LTIFR) has been steadily dropping for the past 18 months and is now the lowest it has been in four years.



## OUTLOOK

The recent outbreak of the coronavirus has sent ripples through the international marketplace, impacting tourism and trade. There is a fair amount of uncertainty as to the level of impact however the Port will notify shareholders should there be any material changes in the coming months.

Weather and offshore market conditions are two variables that regularly have an impact on the trade volumes through the Port and this year is no exception. The continuing wet conditions leading up to Christmas impacted fertiliser imports and although these are recovering, we do not expect to recoup the total volume lost.

The log trade has also been difficult and expectations are that this trend will continue for the remainder of the year. Our expectations are that all other cargoes will track close to budget with potential upside in both containers and cold storage activities although the recent flood event in rural Southland and Otago may also impact volumes.

Based on all known factors at the date of releasing its 2020 interim result, South Port estimates that its full year earnings should fall in the range of \$8.20 million to \$8.70 million (FY2019 - \$9.79million).

## DIVIDEND

After assessing the anticipated year end result, the Directors have declared a fully imputed interim dividend of 7.50 cents per share (2019 – 7.50 cents) payable on 4 March 2020. In the event that the Company's FY2020 year end profit falls within the forecast range then the Directors are confident that the full year dividend payment will be consistent with the previous year.

  
R T CHAPMAN  
Chairman

  
N G GEAR  
Chief Executive