

# > Interim Report

## Financial Performance

Against a challenging market backdrop for a range of cargo providers, South Port recorded an improved interim first half FY2016 NPAT of \$5.06 million (FY2015 - \$3.29 million). Notable influences on the interim result included; the main bulk cargo volumes being surprisingly sustained at similar levels to last year plus slower moving temperature controlled export product generating an increased contribution by South Port's cold storage division.

The reported half-year profit should however be read in conjunction with the Outlook section of this report (where a year-end NPAT forecast range is provided), plus in context with the sizeable second half maintenance expenditure which will occur across several operating areas. The much higher proportion of scheduled annual maintenance which will now fall in the second half of the 2016 financial year has inflated the interim profit.

## Cargo

Total cargo activity registered at 1,512,000 tonnes compared with 1,479,000 tonnes in the prior year interim period. This translates to cargo volumes rising by 33,000 tonnes or 2%. The lift in tonnage was unexpected when compared with budget indications sourced from cargo customers in the autumn of 2015. These projections had suggested reduced volumes across the board were likely given the Chinese economy slow-down and lower international agriculture prices.

The cargo lift was driven primarily by strong bulk forestry (logs/woodchips), plus increased dairy product volumes arising from the second season impact of the Open Country Dairy production expansion at the Awarua manufacturing site. In addition consistent fertiliser and petroleum import volumes plus stable NZAS activity supported the overall throughput. Small tonnage declines were recorded for stock food and sawn timber.

Based on the FY16 cargo pattern to date, it would appear that financiers are supporting dairy farmers and accommodating continuing pasture maintenance and feed-related expenditure.

## Operational Events

### Acquisition of tug *Te Matua*

South Port took delivery of a larger second-hand tug *Te Matua* in September 2015 with upgrade work being carried out on the plant prior to a pre-Christmas commissioning. Sourced from Port of Tauranga at an all-up cost of \$2.5M, the more modern 40 tonne towing strength craft provides the Company with an enhanced combined two-tug towing capacity of 75 tonnes.



**South Port NZ**

For the six month period  
ended 31 December 2015

# Interim Report

## Container shipping market

The New Zealand container shipping market continues to be overheated with a mis-match existing between ship-slot capacity and available cargo. From an importer and exporter perspective this may offer a short-term win but in the medium to longer term, rate stability needs to be re-established to ensure key market connections remain viable. New Zealand is not alone in this situation with all major international trade lanes facing a similar predicament.

## PACE Program

The "Port Achieving Combined Excellence" Process Improvement Program continues to deliver value for the Company and its people. Designed around the review of historic processes, a spring-clean of physical operating locations and the elimination of waste, this program has been in operation for 24 months. A 2016 action plan for the various sub-committees operating under the program has been committed to and will be measured during the current calendar year.

## Health & Safety (H&S)

On-port fatality – South Port directors, managers and staff were deeply saddened by the death of local Bluff identity Morrell McKenzie following an accident that occurred on the Bluff Island Harbour in early December. The accident was initially investigated by the NZ Police, including the Serious Crash Unit, and has now been passed across to WorkSafe to complete. While the cause of the accident is still being investigated, the event reinforces the need for:

- South Port, plus all Port users and visitors to be constantly aware of risks that exist within the port operating environment; and
- continuing communication and enforcement of H&S requirements.

## Business Development Opportunities

### Intermodal Freight Centre (IFC), Invercargill

Construction commenced in November 2015 on the 0.8 ha container unpacking/packing site at Mersey Street, Invercargill. The facility is scheduled to be completed by the second half of the 2016 calendar year and will predominantly support import container cargo flows into the Southland region. Strategically located adjacent to the KiwiRail container transfer yard, it will facilitate the competitive movement of cargo via rail and create opportunities to more efficiently access both products and containers in Invercargill.

### Wind farm projects

Trustpower continues to review the economic viability of a proposed Kaiwera Downs Wind Farm located across 2,568 ha of farmland, around 15 kms south east of Gore. Resource Consents have been granted by the Gore District Council and Southland Regional Council with these consents allowing for a maximum of 83 wind turbines. Trustpower stated from the outset that the wind farm is likely to be developed in stages, and the size and timing of stage one is dependent on market conditions.

## NZAS

An extremely challenging environment continues to be faced by NZAS with weak international aluminium commodity prices persisting. This scenario has been alleviated to a modest extent by a lower NZD and softening raw material costs.

Further, a decision on the form of a more equitable transmission charging mechanism is still awaited from the Electricity Review Authority and any realignment in this area will have a significant bearing on the long term viability of NZAS. The review of the existing mechanism relates not to the base electricity supply pricing but to the charge method applied by Transpower for use of transmission infrastructure.

## Oil & Gas Exploration

In early October 2015 Shell New Zealand, together with its consortium partners OMV NZ and Mitsui E&P Australia, announced that it is seeking more time to drill an exploration well within the Great South Basin (GSB) so further geological interpretation can be undertaken. Sub-surface analysis will take place before a final decision is made on whether to commit to 3D seismic by July 2017.

South Port and regional stakeholders continue to interact with oil and gas exploration parties who remain optimistic about the medium to long term energy potential available in GSB.

## Outlook

Despite a subdued demand picture for a range of cargoes, more recent customer signals suggest a stable second half operating picture is likely. South Port's main product flows (logs/fertiliser/NZAS cargo/dairy/petroleum) are expected to hold up well and track budget expectations in the 6 month period to 30 June 2016.

As noted under the opening Financial Performance commentary, a greater level of R&M expenditure will occur in the second half of FY2016 and therefore a lesser NPAT contribution is expected in that period.

Based on all known factors at the date of releasing its 2016 interim result South Port estimates that its full year earnings will be in the range of \$8.25 million to \$8.75 million (FY2015 - \$7.74M).

## Dividend

After assessing the anticipated year end result, the Directors have declared a fully imputed interim dividend of 7.50 cents per share (2015 - 7.00 cents) payable on 8 March 2016.



Rex Chapman  
Chairman



Mark O'Connor  
Chief Executive

# > Financial Statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six month period ended 31 December 2015

	31/12 2015 \$000's	31/12 2014 \$000's	Year to 30/06/15 \$000's
Total operating revenues from port services	17,979	16,176	34,559
Total operating expenses	(9,189)	(9,756)	(20,107)
Gross profit	8,790	6,420	14,452
Administrative expenses	(1,545)	(1,338)	(2,771)
Operating profit before financing costs	7,245	5,082	11,681
Financial income	5	5	15
Financial expenses	(320)	(466)	(925)
Net financing income/(costs)	(315)	(461)	(910)
Other income	67	2	10
<b>Surplus before income tax</b>	<b>6,997</b>	<b>4,623</b>	<b>10,781</b>
Income tax	(1,935)	(1,330)	(3,044)
<b>Net surplus after income tax</b>	<b>5,062</b>	<b>3,293</b>	<b>7,737</b>
Other comprehensive income	–	203	203
<b>Total comprehensive surplus/ (loss) after income tax</b>	<b>5,062</b>	<b>3,496</b>	<b>7,940</b>
Basic earnings per share	\$0.193	\$0.126	\$0.295

## CONSOLIDATED STATEMENT OF CASH FLOWS

Six month period ended 31 December 2015

	31/12 2015 \$000's	31/12 2014 \$000's	Year to 30/06/15 \$000's
Cash flows from operating (note 6)	5,183	3,427	11,990
Cash flows from investing	(4,231)	(5,524)	(6,682)
Cash flows from financing	(1,560)	(1,581)	(8,135)
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>(608)</b>	<b>(3,678)</b>	<b>(2,827)</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	31/12 2015 \$000's	31/12 2014 \$000's	Year to 30/06/15 \$000's
<b>TOTAL EQUITY</b>	<b>33,916</b>	<b>30,707</b>	<b>33,314</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	43,051	40,462	40,627
Total non-current assets	43,051	40,462	40,627
<b>CURRENT ASSETS</b>			
Cash	1,545	1,302	2,153
Trade and other receivables	5,211	6,078	4,373
Total current assets	6,756	7,380	6,526
<b>Total assets</b>	<b>49,807</b>	<b>47,842</b>	<b>47,153</b>
<b>NON-CURRENT LIABILITIES</b>			
Employee provisions	40	42	40
Deferred tax liability	357	299	317
Borrowings	11,100	12,700	8,200
Other	255	153	232
Total non-current liabilities	11,752	13,194	8,789
<b>CURRENT LIABILITIES</b>			
Current borrowings	–	217	–
Trade and other payables	2,466	2,466	2,954
Provisions	788	825	1,044
Other	885	433	1,052
Total current liabilities	4,139	3,941	5,050
<b>Total liabilities</b>	<b>15,891</b>	<b>17,135</b>	<b>13,839</b>
<b>TOTAL NET ASSETS</b>	<b>33,916</b>	<b>30,707</b>	<b>33,314</b>
Net asset backing per share	\$1.29	\$1.17	\$1.27

# > Notes to the Financial Statements

For the six month period ended 31 December 2015

**1 ACTIVITIES OF SOUTH PORT GROUP** – The Group is primarily involved in providing and managing port and warehousing services.

**2 ACCOUNTING POLICIES** – The interim financial statements of the South Port New Zealand Ltd Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

These financial statements comply with International Financial Reporting Standards (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 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.

**4 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 2015. This customer contributed \$4.04 million for the six months ended 31 December 2015 (2014: \$3.65 million).

## 5 STATEMENT OF CHANGES IN EQUITY

	31/12 2015 \$'000's	31/12 2014 \$'000's	Year to 30/06/15 \$'000's
<b>Total equity at beginning of the period</b>	<b>33,314</b>	<b>31,408</b>	<b>31,408</b>
Surplus/(loss) after income tax	5,062	3,293	7,737
Other comprehensive surplus/(loss)	–	203	203
<b>Total comprehensive surplus/(loss)</b>	<b>5,062</b>	<b>3,496</b>	<b>7,940</b>
Distributions to shareholders	(4,460)	(4,197)	(6,034)
<b>Total equity at end of the period</b>	<b>33,916</b>	<b>30,707</b>	<b>33,314</b>

## 6 NET CASH FLOW FROM OPERATING ACTIVITIES

Surplus after taxation	5,062	3,293	7,737
Add/(less) items classified as investing/financing activities	–	–	–
Add/(less) non-cash items	1,459	1,386	2,914
Add/(less) movement in working capital	(1,338)	(1,252)	1,339
<b>Net cash provided by operating activities</b>	<b>5,183</b>	<b>3,427</b>	<b>11,990</b>



# Directory

## Group Companies

**Parent Company**  
*South Port New Zealand Limited*

**Subsidiary**  
*Awarua Holdings Limited*

## Directors

**Rex Chapman**  
*Chairman*

**Rick Christie**

**Philip Cory-Wright**

**Thomas Foggo**

**Graham Heenan**

**Jeremy McClean**

## Corporate Executives

**Mark O'Connor**  
Chief Executive

**Mark Billcliff**  
Warehousing Manager

**Geoff Finnerty**  
Port Operations Manager

**Nigel Gear**  
Commercial Manager

**Frank O'Boyle**  
Infrastructure Manager

**Lara Stevens**  
Finance Manager

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