



South Port NZ

Interim Report

FOR THE SIX MONTH PERIOD
ENDED 31 DECEMBER 2012



Interim Report

FINANCIAL PERFORMANCE

Despite processing a lower cargo tonnage for the 6 month period ended 31 December 2012, South Port recorded an increased interim NPAT of \$2.90 million (2012 - \$2.54 million). This bottom line result matched the previous record interim profit set in December 2010 and was boosted by the addition of the former Southland Cool Stores cold storage operation (with effect from 1 September 2012) and increased fish cargo being stored at South Port's Island Harbour cold storage facility.

CARGO

As stated above, cargo activity for the six months to 31 December 2012 reflected a lower level of 1,268,000 tonnes. This compares with 1,390,000 tonnes in the previous interim period and translates to a decrease of 9% in volume terms. It is worthwhile noting that the prior interim period represented a first-half cargo volume record for the Company.

The decline in cargo was due primarily to weaker export activity while overall import movements largely maintained their momentum. Reduced volumes were registered for petroleum products, NZAS import / export cargo, woodchips and logs. On the positive side of the ledger, volume gains were recorded for fertiliser, stock food and fish.

The forestry sector continued to encounter trying conditions with the Japanese market for softwood chips being extremely weak while demand for Southern logs was spasmodic. Fertiliser tonnages were notably buoyant although South Port's customers in this sector are anticipating reduced throughput during the second half of the financial year. Supplementary stock food continued to demonstrate growth as a result of farmers' modifying their feeding systems.

OTHER OPERATIONAL EVENTS

Integration of Southland Cool Stores Business – Following the acquisition of the Bluff based Southland Cool Stores business in September 2012, South Port took steps to integrate this business with its existing Island Harbour cold storage operation. This has been successfully achieved with both locations now forming an enlarged single cold storage division within the Company.

NZAS and Pacific Aluminium – Shareholders have previously been informed of the October 2011 decision by Rio Tinto to transfer six Australian and New Zealand assets into a new business called Pacific Aluminium. Included in the group of transferred assets was New Zealand Aluminium Smelters (NZAS) which operates the aluminium production facility located on Tiwai Peninsula alongside Bluff Harbour.

The more recent focus for NZAS has been the taking of major rationalisation steps to return the smelter to commercial viability. Actions include on-going operating-expenditure reviews, an organisational restructure including the reduction of 100 roles, curtailing of significant capital expenditure and a renegotiation with Meridian of the long-term electricity supply contract.

As at the date of preparing this interim report the Meridian contract renegotiation was still unresolved. Of all the listed rationalisation strategies the outcome of this process is likely to have the most significant impact on the long term future of NZAS.

Container Vessel Simulation – In the fourth quarter of 2012, South Port marine pilots conducted a simulation exercise at the modern “Smartship” simulator facility in Brisbane, Australia. This exercise was designed to assess whether the Port of Bluff could safely accommodate larger 260M length container vessels which the MSC Shipping Line was contemplating introducing into the current Capricorn Service rotation. The testing carried out during the simulation exercise confirmed that, subject to certain operating conditions, the larger container vessels could safely transit the port.

Additional Dry Warehousing – An additional 5,900 m² dry warehouse is presently under construction at the west end of the Bluff Island Harbour. Encompassing load bearing walls and divided into two separate storage areas (3,700 m² & 2,200 m²), this new structure is designed to accommodate bulk cargoes (such as stock food and fertiliser) and will be a useful addition to South Port’s warehousing resources.

Increased Deep-Water Fishing Activity – The past 6 months provided a lift in deep-water fish catch being discharged into South Port’s cold store in Bluff. During what is traditionally a quieter part of the season, a number of vessels elected to either base their vessels at the port or transfer their catch at the closest discharge location available. In addition to generating extra cargo, this activity also provided incremental storage volume for South Port’s Island Harbour cold store division.

NEW BUSINESS OPPORTUNITIES

Invercargill Land Purchase – Prior to Christmas 2012, South Port acquired 0.63 ha of bare land in Mersey Street adjacent to the Invercargill rail-head area where containerised cargo is transferred. South Port is currently exploring warehousing options for this site and also aims to establish a packing/devanning operation at this location.

Oil & Gas Exploration – Shareholders are likely to be aware that the most significant exploration licence in the Great South Basin (GSB) is held by a consortium comprising Shell NZ (50%), OMV NZ (18%), PTTEP NZ (18%) and Mitsui E&P Australia (14%). Having acquired 3D seismic data in early 2012 the consortium has indicated this information is likely to be analysed by mid-2013 after which time a decision on a potential exploration drilling project will be made.

Shell NZ is currently advancing an Environmental, Social and Health Impact Assessment for the proposed exploratory drilling project. Should an exploration well be committed to, the timing of this project is expected to be in the summer months of 2014/2015.

A grouping of three of the above consortium members (Shell GSB/OMV NZ/Mitsui E&P Australia) also recently announced that it had been awarded an additional exploration permit (PEP54863) in GSB. The new permit area lies directly to the east of exploration permit area PEP50119, operated by Shell, and covers 8,508 km². The combined acreage of both permits is 25,223 km².

South Port and regional stakeholders continue to interact with oil and gas exploration companies and remain optimistic about the energy potential available in GSB.

Development of Southland’s Lignite Resource – Solid Energy through direct land ownership has access to approximately 1.4 billion tonnes of lignite in Eastern Southland. Renewed emphasis has been placed on completing a full feasibility study to assess the viability of a potential lignite-to-urea conversion process in the region. South Port has been working with Solid Energy and its consultants to provide meaningful data in relation to this study.

Solid Energy has gone to some lengths to highlight to stakeholders that it will take full responsibility for greenhouse gas emissions associated with any of its projects including the full cost of carbon. Solid Energy plans to meet its carbon obligations through a range of approaches and technologies including processes to reduce production emissions, offsetting emissions by planting trees, capturing and sequestering carbon underground and purchasing carbon credits.

HEALTH & SAFETY AND ENVIRONMENT (HSE)

Log Storage – As part of South Port’s on-going commitment to improving HSE standards in the port environment a re-alignment of log storage areas and the addition of perimeter fencing is underway. South Port negotiated with KiwiRail to secure a long term lease of land splitting the existing log storage areas and this will be developed over time to ensure the operational activity can continue to occur within the realigned area. Previously log loading has overflowed onto roadways creating unnecessary risk to port users.

OUTLOOK

Looking to the remainder of the current financial period, South Port believes it is important to remind shareholders of the unique global environment that persists at the time of generating this report. While encouraged by the strong start to the 2013 year, there are currently a number of testing factors affecting a range of cargo generating businesses in Southern New Zealand.

These factors include subdued off-shore demand, a high exchange rate, the need to maintain international competitiveness and lower commodity prices. The reduced cargo volume in the first half was directly attributable to these factors. As a consequence the second half of the current financial year is likely to be a more challenging period for the Company and its customer base.

Based on all known factors at the date of releasing its 2013 interim result South Port estimates that its full year earnings should fall in the range of \$6.0 million to \$6.4 million.

DIVIDEND

After assessing the anticipated year end result, the Directors have declared an improved fully imputed interim dividend of 6.50 cents per share (2012 – 5.50 cents) payable on 4 March 2013. The Company’s aim is to maintain the same full year dividend pay-out level that it has achieved over the past two financial years (20.0 cents per share).



Rex Chapman
Chairman of Directors



Mark O'Connor
Chief Executive

Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six month period ended 31 December 2012

	31/12 2012 \$000's	31/12 2011 \$000's	Year to 30/06/12 \$000's
Total operating revenues	13,854	12,496	26,038
Total operating expenses	(8,421)	(7,522)	(15,325)
Gross profit	5,433	4,974	10,713
Administrative expenses	(1,301)	(1,170)	(2,387)
Operating profit before financing costs	4,132	3,804	8,326
Financial income	81	5	11
Financial expenses	(182)	(259)	(386)
Net financing income/(costs)	(101)	(254)	(375)
Other income	–	13	416
Surplus before income tax	4,031	3,563	8,367
Income tax	(1,127)	(1,020)	(2,378)
Total income tax	(1,127)	(1,020)	(2,378)
Net surplus after income tax	2,904	2,543	5,989
Other comprehensive income	5	1	3
Total comprehensive surplus/ (loss) after income tax	2,909	2,544	5,992
Basic earnings per share	\$0.111	\$0.097	\$0.228

CONSOLIDATED STATEMENT OF CASH FLOWS

Six month period ended 31 December 2012

	31/12 2012 \$000's	31/12 2011 \$000's	Year to 30/06/12 \$000's
Cash flows from operating (note 6)	1,825	1,490	6,721
Cash flows from investing	(4,029)	(1,209)	(1,780)
Cash flows from financing	2,461	296	(4,347)
NET INCREASE/(DECREASE) IN CASH	257	577	594

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	31/12 2012 \$000's	31/12 2011 \$000's	Year to 30/06/12 \$000's
TOTAL EQUITY	28,677	27,567	29,572
NON-CURRENT ASSETS			
Property, plant & equipment	33,760	29,006	29,760
Investments	27	21	22
Total non-current assets	33,787	29,027	29,782
CURRENT ASSETS			
Cash	1,233	957	974
Trade and other receivables	5,625	4,430	4,056
Available for sale	–	905	–
Total current assets	6,858	6,292	5,030
Total assets	40,645	35,319	34,812
NON-CURRENT LIABILITIES			
Borrowings	201	–	–
Employee provisions	76	59	67
Deferred tax liability	269	128	303
Other	325	467	397
Total non-current liabilities	871	654	767
CURRENT LIABILITIES			
Current borrowings	7,264	4,400	1,200
Trade and other payables	2,900	1,750	1,827
Provisions	728	714	657
Other	205	234	789
Total current liabilities	11,097	7,098	4,473
Total liabilities	11,968	7,752	5,240
TOTAL NET ASSETS	28,677	27,567	29,572
Net asset backing per share	\$1.09	\$1.05	\$1.13

Notes to Financial Statements

For the six month period ended 31 December 2012

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 ten percent of its total revenue for the period ended 31 December 2012. This customer contributed \$3.39 million for the six months ended 31 December 2012 (2011: \$3.45 million). For the six months ended 31 December 2011 there was one other customer who also contributed individually greater than ten percent of total revenue at \$1.29 million (2012: less than 10% of revenue).

5. STATEMENT OF CHANGES IN EQUITY

	31/12 2012 \$000's	31/12 2011 \$000's	Year to 30/06/12 \$000's
Total equity at beginning of the period	29,572	28,827	28,827
Surplus/(loss) after income tax	2,904	2,543	5,989
Other comprehensive surplus/(loss)	5	1	3
Total comprehensive surplus/(loss)	2,909	2,544	5,992
Distributions to shareholders	(3,804)	(3,804)	(5,247)
Total equity at end of the period	28,677	27,567	29,572

6. NET CASH FLOW FROM OPERATING ACTIVITIES

Surplus after taxation	2,903	2,543	5,989
Add/(less) items classified as investing/financing activities	–	–	24
Add/(less) non-cash items	1,140	1,301	2,205
Add/(less) movement in working capital	(2,218)	(2,354)	(1,497)
Net cash provided by operating activities	1,825	1,490	6,721



South Port NZ

Directory

GROUP COMPANIES

Parent Company
South Port New Zealand Limited

Subsidiary
Awarua Holdings Limited

DIRECTORS

R. T. Chapman, *Chairman*
R. G. M. Christie
P. W. Cory-Wright
T. M. Foggo
G. D. Heenan
J. J. McClean

CORPORATE EXECUTIVES

Mark O'Connor, *Chief Executive*
Russell Slaughter, *Port General Manager*
Geoff Finnerty, *Cargo Operations Manager*
Nigel Gear, *Commercial Manager*
Steve Kellett, *Cold Store Manager*
Lara Stevens, *Finance Manager*

Information

*For further information about our Company
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