South Port NZ

INTERIM REPORT

FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

INTERIM REPORT

Financial Performance

South Port's NPAT for the first six months of FY2017 reflected a better than expected level of $4.10M (FY2016 - $5.06 million). Several factors impacted on this lower interim result including:

- A distorted interim profit contribution being reported in FY2016 due largely to R&M scheduling (NPAT half year $5.06M versus full year $8.71M);
- An increased number of significant R&M projects being undertaken in the current period, as signalled in the FY2016 profit release and Annual Meeting comments; and
- Notably lower cold storage income being generated in first 6 months of FY2017.

The closing comments of the FY2016 Review of Operations outlined the following:

> **"Based on all known factors at the date of compiling this Report, South Port estimates that earnings in the next financial year are likely to reduce by approximately 15%."**

The reported FY2017 interim profit is ahead of budget and this earlier forecast and therefore some upside potential exists for the full year result [albeit that it is still expected to be less than the FY2016 NPAT].

Cargo

Total cargo activity registered at 1,517,000 tonnes, which aligns closely with the 1,512,000 tonnes throughput of the prior year interim period. Clearly overall cargo maintained the solid pattern of the previous year however some variances were evident within individual cargo categories. Specifically petroleum (-23,000T) and stock food (-30,000T) showed declines whilst logs (+39,000T) and woodchips (+30,000T) continued to show strength.

Containerised cargo provided an encouraging lift of around 8% despite negative pressure being evident for agri imports such as specialised fertiliser, stock food and minerals.

Operational Events

Dairy

While there have been some recent reductions in the Global Dairy Trade (GDT) auction results, international dairy commodity prices on a trend basis lifted consistently over the back half of 2016. This is encouraging news for the sector with farmers having sustained two difficult seasons where some balance sheets would have been stretched to breaking point.

While commentators are not predicting the same highs of earlier cycles, the current forecast payout levels will offer greater confidence to operators in the dairy industry. A close watch on possible volume increases in Europe and USA will continue as these two global producers have the ability to dramatically influence the dairy supply side.

Intermodal Freight Centre (IFC)

This facility commenced operations in mid July 2016 and has provided a varied range of services to freight forwarders, transport operators and a mix of import and export parties. Focusing predominantly on import cargoes, containerised volumes have tracked budget which was particularly pleasing considering the reduced consumables spend in the dairy sector. Increased regional container related service competition has also benefited import and export businesses operating in Southland.

Container shipping market

As anticipated, further consolidation of container shipping lines and the creation of new alliances occurred during 2016. Although no noticeable international rate improvement is evident to date, it is highly likely that this will be necessary if the container lines are to achieve sustainable profitability.

This consolidation action has triggered a situation where a number of the larger land based container terminals have also signalled their intention to form alliances and function as a bloc of service providers when negotiating operating agreements with container lines.

Cold Storage

As alluded to in the Financial Performance opening section of this Report, cold storage activity was particularly subdued in the first half of FY2017. This was attributable to limited carry-over of product from the previous export season, less total volume requiring cold storage in the current season to date and the rapid movement of product to market. In addition one of South Port's seasonal customers, pet food processor Wilbur Ellis, sustained a serious fire at its Bluff based plant in April 2016. This resulted in no storage being required by this customer until early 2017, when the plant became operational again.

Business Development Opportunities

Mataura Valley Milk (MVM)

Construction of MVM's infant formula plant commenced in the fourth quarter of 2016. Located at McNab in Eastern Southland, the facility is scheduled to begin processing by Spring 2018. The company was formed and promoted by prominent local businessman Inky Tulloch and now has as its majority shareholder the State-owned Chinese company China Animal Husbandry Group (CAHB). South Port will be working with this party in coming months with a view to offering services related to MVM's supply chain.

Wind farm projects

Trustpower announced in late 2015 that it would split off its existing wind generation assets plus its wind and solar developments into a new entity called Tilt Renewables (Tilt). This new company came into existence in October 2016 and continues to review the economic viability of a proposed Kaiwera Downs Wind Farm located across 2,568 ha. of farmland, around 15 km south east of Gore. Resource Consents have been granted by Gore District Council and Southland Regional Council with these consents allowing for a maximum of 83 wind turbines. If this generation project is to proceed, then any development is unlikely to occur before 2019 and may well progress in several stages.

NZAS

This significant export manufacturer (and importer of raw materials) remains exposed to fluctuations and volatility both in the New Zealand dollar and the price of aluminium. Despite this, the team at NZAS once again broke their hot metal production record in 2016.

NZAS also pays one of the highest prices for transmission of a smelter anywhere in the world and is keenly engaged in the Electricity Authority's proposal to reform the Transmission Pricing Methodology. It is critical, not only for NZAS, but for all existing or new businesses operating in the South Island that a more logical and fairer charging method be established for the provision of transmission infrastructure. Obviously any realignment in this area will have a potentially significant bearing on the long term viability of NZAS.

Health & Safety (H&S)

Due Diligence Review

In accordance with the obligations of the new Health & Safety at Work Act 2015, South Port undertook a Due Diligence review of its H&S systems. Completed by an external party, this exercise threw up several areas of improvement that required action, plus reinforced projects that the Company had already started to advance prior to the review being completed.

H&S Panel

A new initiative to enable Directors and staff to interact and discuss H&S risks was also launched in the past six months. At least three times a year sub groups from the newly formed H&S Panel (made up of Directors/H&S personnel/staff representatives) will visit various operational areas to gain a better understanding of what work is being undertaken and the associated H&S issues.

Outlook

A reasonably stable economic picture should enable South Port's customers to generate consistent cargo flows in the second half of FY2017. South Port's main product flows (logs/fertiliser/NZAS cargo/dairy/petroleum) are expected to track budget expectations in the 6 month period to 30 June 2017.

As noted under the opening Financial Performance commentary, a greater level of R&M expenditure has been programmed for FY2017 and for the next several years. This relates to a number of significant infrastructural assets being at or near the end of their physical useful life. In order to extend the effective life of these assets, a much greater level of R&M expenditure will need to be applied to these structures.

Based on all known factors at the date of releasing its 2017 interim result, South Port estimates that its full year earnings should fall in the range of $7.75 million to $8.0 million (FY2016 - $8.7M).

Dividend

After assessing the anticipated year end result, the Directors have declared a fully imputed interim dividend of 7.50 cents per share (2016 – 7.50 cents) payable on 7 March 2017.

In the event that the Company's FY2017 profit falls within the above forecast range then the Directors are confident that the full year dividend payment will be consistent with the previous year.

R T CHAPMAN
Chairman

M P O'CONNOR
Chief Executive

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTH PERIOD ENDED 31 DECEMBER 2016

	Unaudited 31/12 2016 $000's	Unaudited 31/12 2015 $000's	Audited Year to 30/06/16 $000's
Total operating revenues from port services	17,410	17,979	36,718
Total operating expenses	(10,000)	(9,189)	(20,646)
Gross profit	7,410	8,790	16,072
Administrative expenses	(1,477)	(1,545)	(3,391)
Operating profit before financing costs	5,933	7,245	12,681
Financial income	107	5	9
Financial expenses	(298)	(320)	(710)
Net financing income/(costs)	(191)	(315)	(701)
Other income	–	67	176
Surplus before income tax	**5,742**	**6,997**	**12,156**
Income tax	(1,634)	(1,935)	(3,447)
Net surplus after income tax	**4,108**	**5,062**	**8,709**
Other comprehensive income	–	–	–
Total comprehensive surplus/(loss) after income tax	**4,108**	**5,062**	**8,709**
Basic earnings per share	$0.157	$0.193	$0.332

CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTH PERIOD ENDED 31 DECEMBER 2016

	Unaudited 31/12 2016 $000's	Unaudited 31/12 2015 $000's	Audited Year to 30/06/16 $000's
Cash flows from operating (note 6)	3,479	5,183	11,863
Cash flows from investing	(2,496)	(4,231)	(9,181)
Cash flows from financing	(854)	(1,560)	(3,927)
NET INCREASE/(DECREASE) IN CASH	**129**	**(608)**	**(1,245)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Unaudited 31/12 2016 $000's	Unaudited 31/12 2015 $000's	Audited Year to 30/06/16 $000's
TOTAL EQUITY	**34,851**	**33,916**	**35,596**
NON-CURRENT ASSETS			
Property, plant & equipment	47,436	43,051	47,368
Total non-current assets	47,436	43,051	47,368
CURRENT ASSETS			
Cash	1,037	1,545	908
Trade and other receivables	5,905	5,211	4,743
Total current assets	6,942	6,756	5,651
Total assets	**54,378**	**49,807**	**53,019**
NON-CURRENT LIABILITIES			
Employee provisions	53	40	37
Deferred tax liability	425	357	379
Borrowings	14,700	11,100	4,000
Other	263	255	370
Total non-current liabilities	15,441	11,752	4,786
CURRENT LIABILITIES			
Current borrowings	–	–	6,700
Trade and other payables	2,798	2,466	3,803
Provisions	771	788	1,047
Other	517	885	1,087
Total current liabilities	4,086	4,139	12,637
Total liabilities	**19,527**	**15,891**	**17,423**
TOTAL NET ASSETS	**34,851**	**33,916**	**35,596**
Net asset backing per share	$1.33	$1.29	$1.36

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

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 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 2016. This customer contributed $4.43 million for the six months ended 31 December 2016 (2015: $4.04 million).

5 STATEMENT OF CHANGES IN EQUITY	Unaudited 31/12 2016 $000's	Unaudited 31/12 2015 $000's	Audited Year to 30/06/16 $000's
Total equity at beginning of the period	**35,596**	**33,314**	**33,314**
Surplus/(loss) after income tax	4,108	5,062	8,709
Other comprehensive surplus/(loss)	–	–	–
Total comprehensive surplus/(loss)	**4,108**	**5,062**	**8,709**
Distributions to shareholders	(4,853)	(4,460)	(6,427)
Total equity at end of the period	**34,851**	**33,916**	**35,596**

6 NET CASH FLOW FROM OPERATING ACTIVITIES

Surplus after taxation	4,108	5,062	8,709
Add/(less) items classified as investing/financing activities	–	–	–
Add/(less) non-cash items	1,572	1,459	3,067
Add/(less) movement in working capital	(2,201)	(1,338)	87
Net cash provided by operating activities	**3,479**	**5,183**	**11,863**

South Port NZ

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

Clare Kearney

Jeremy McClean

Corporate Executives

Mark O'Connor
Chief Executive

Geoff Finnerty
Port Operations Manager

Nigel Gear
Commercial Manager

Frank O'Boyle
Infrastructure Manager

Lara Stevens
Finance Manager

Murray Wood
Warehousing Manager

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