south port interim report

FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2009

Craigs 150064

interim report

FINANCIAL PERFORMANCE

The absence of significant one-off gains which existed in the comparable interim period reduced South Port's 2010 first half result to a level of $1.74 million (2009 - $2.29 million).

The previous year's interim profit incorporated one-off gains totalling $580,000 after-tax. These gains arose from the realisation of a forestry investment, depreciation recovered on selling surplus plant and foreign exchange gains. In comparison net one-off gains (final forestry investment dividend, foreign exchange adjustment etc.) in the first 6 months of the 2010 financial year equate to approximately $70,000 after tax.

Despite a more subdued cargo handling period, after adjusting for the impact of the one-off gains referred to above, the profit recorded in the 6 months to 31 December 2009 is a creditable result.

CARGO ACTIVITY

Cargo volumes for the six months to 31 December 2009 registered at a lower level of 984,000 tonnes. This compares with 1,072,000 tonnes in the previous interim period and translates to a decrease of 8% in volume terms. The reduction in cargo is due primarily to a more cautious approach by the agricultural sector with lower fertiliser inputs being applied and less supplementary stock food being required. Notable import reductions were recorded for fertiliser raw material, sulphuric acid, molasses and stock food.

On the export side of the business all forms of forestry cargo demonstrated stronger demand with volume lifts occurring for woodchips, logs and sawn timber. Dairy throughput also increased while pebbles, meat and meat by-products produced lower tonnages.

During the past 6 months New Zealand Aluminium Smelters (NZAS) has progressively reinstated the production capacity which was unavailable for several months due to a transformer failure. NZAS anticipates operating within normal production parameters for the remainder of the 2010 calendar year. Overall the variance relating to cargo passing across the South Port owned Tiwai Wharf during the two most recent interim periods was not significant.

Both the dry and cold/cool warehousing divisions experienced increased activity during the interim period resulting in improved contributions from these areas.

OTHER OPERATIONAL EVENTS

NZAS/South Port Arbitration - South Port's largest customer by volume, NZAS, receives and distributes the majority of its cargo across the dedicated Tiwai Wharf and Access Bridge. These assets and associated port infrastructure are provided by South Port to NZAS under a long term licence (lease) agreement.

This historic agreement expired in April 2008 and was renewed by NZAS for a further 35 year period effective from that date. The two parties have been unable to reach agreement on an appropriate charge for the ongoing provision of this infrastructure and have reverted to an arbitration process which should be concluded prior to the end of the 2010 financial year.

MSC - Mediterranean Shipping Company's (MSC) weekly Capricorn container shipping service continues to be well supported by regional exporters and importers. The associated cargo storage, packing, and servicing of containers has generated additional activity within the Port during the past 20 months and this has necessitated additional plant, warehousing and personnel resource.

Dairy Sector – In August 2009 Fonterra Edendale commissioned an additional drier which was reported as being the world's single largest milk powder drier. When running at full capacity this drier can produce 28 tonnes/hour or 150,000 tonnes of milk powder per season. This $212 million development will take the Edendale site's peak milk processing capacity to over 15 million litres per day and provide it with the mantle of the world's largest milk powder production plant.

Aligned with growth in processing capacity at the Edendale production site, Fonterra has recently purchased the 16.45 ha former Fisher & Paykel manufacturing site at Mosgiel, near Dunedin. It plans to build additional dry and cool stores at this location to consolidate existing warehousing arrangements in the South Island. South Port is presently working with Fonterra management to establish future cool and dry warehousing requirements for product which has historically been stored at Bluff.

South Port's other important dairy sector customer, Open Country Dairy, is now in its second season of production from its Awarua milk powder plant and continues to warehouse and export its product via Bluff. This operator has established an effective network of international customers and is now an active participant in the New Zealand dairy industry.

Forestry Sector – Increased demand for New Zealand logs destined for China is likely to present export growth opportunities for this product through South Port. The Company is working with existing and potential new log exporters to evaluate additional infrastructure requirements that may be required to manage greater export activity.

Consistent with projected lifts in harvested eucalyptus volumes in the region, woodchip export cargo also continues to climb. An increase in sawn timber tonnage is attributable to market demand stabilising for the established timber processors operating in Southland.

NEW BUSINESS OPPORTUNITIES

Oil & Gas Exploration – Seismic activity was completed over the 2007/2008 summer months by the two largest consortiums that secured exploration licences in the Great South Basin. The consortium consisting of ExxonMobil and Todd Energy engaged contractor WesternGeco to undertake its seismic mapping while the consortium headed up by OMV Group assigned Wavefield Inseis the responsibility of collecting its seismic information.

During the last quarter of calendar 2009 both the ExxonMobil consortium and the OMV consortium sought and received from the New Zealand Government 12 month deferrals to comply with their exploration licence conditions. ExxonMobil and Todd Energy now have until October 2010 to make a decision on whether to drill in the Great South Basin while the OMV consortium has until July 2011 to do likewise.

ExxonMobil sought the change to its permit conditions to facilitate more effective exploration and is seeking interest from other parties to farm-in to the permit. Currently the exploration licence interest is held 90% by ExxonMobil and 10% by Todd Energy. The main reason for deferral put forward by OMV was the additional time needed to gather and interpret extra seismic data plus plan a potential exploration campaign. Linked to this statement was OMV's action to engage Singapore-based Reflect Geophysical to complete an additional 2,600 km of seismic mapping in January and February 2010.

Whilst there are no assurances that South Port will secure future oil and gas industry activity, it is useful to restate several advantages that Bluff is able to provide over its competitors when it comes to meeting the requirements of an exploration base:

- Bluff was selected as the base for previous Great South Basin exploration
- South Port can offer extensive lay down storage areas directly on the port
- The refuelling of support vessels and the provision of diesel supplies for rig operations are more easily accessible than other ports (note support vessels normally require draft of 7 – 8 metres which can be comfortably provided)
- A wide selection of dedicated service berths are available
- South Port has established expertise handling project and break-bulk cargoes
- The Southland region has a more extensive engineering resource as a result of companies servicing the NZAS aluminium smelter and the meat processing, dairy and forestry industries over several decades
- Local government in the region also has a reputation of being willing to try harder to address the needs of new commercial ventures while still meeting the requirements of their local stakeholders.

Shareholders may recall that the formation of the Southland Energy Consortium (SEC) in 2007 was an initiative driven by South Port and Venture Southland. This entity is made up of key regional businesses and organisations who could deliver services to those parties wishing to undertake sizeable energy projects in Southland.

Being mindful of the opportunity that energy resources represent for the region, a SEC delegation, which included South Port management, visited the Norwegian oil and gas service hub of Stavanger in late November 2009. The delegation was hosted by the Greater Stavanger Economic Development Unit and gained a valuable insight into the main strategies deployed to attract oil/gas participants to that region plus the infrastructure necessary to support the resulting activity.

Following the Stavanger exercise, SEC concluded that Southland must continue to plan for the development of potentially significant energy reserves located within the province or immediately offshore. Active promotion to international oil/gas companies and central government will continue to be a feature of this planning work.

Development of Southland's Lignite Resource – Solid Energy and Ravensdown announced in late September 2009 that the two companies will undertake a joint study into the viability of establishing a lignite-to-fertiliser conversion plant in Southland.

With an estimated establishment cost of $1.5 billion such a plant would be capable of producing up to 1.2 million tonnes of nitrogen fertiliser (urea) annually. The 2 million tonnes of lignite material for this production will be sourced from Solid Energy's large lignite resources in Eastern Southland.

If it is determined that such a process is viable the development could start as early as 2014 and enable New Zealand to be an exporter of urea fertiliser as well as supplying domestic farming needs. This type of development could also lead to a second much larger project to produce synthetic diesel from the same extensive lignite resources.

Solid Energy and Ravensdown expect to complete the initial study in the first quarter of 2010 when they will decide whether to proceed to the next stage of a feasibility exercise. Following engineering design, and subject to consenting and financing, construction could start by 2012, and the plant could be operational by late 2014.

In addition to evaluating the merits of a lignite-to-fertiliser plant, Solid Energy is also trialling the manufacture of coal briquettes in Southland. It has recently shipped 500 tonnes of Southland lignite to the USA for commercial trials at a Colorado based drying plant.

Solid Energy has entered into a joint venture with USA company GTL Energy Ltd, to investigate the feasibility of building a briquette plant in a former paper mill at Mataura, 10km east of its New Vale coal mine in Eastern Southland. The briquette system involves a mechanical process to extract moisture from the coal thereby enhancing the thermal value.

Should the plant proceed, it would be the first of its kind in New Zealand and process an estimated 100,000 tonnes of lignite a year. A decision to advance the briquette development would be partly based on the likely demand from Solid Energy's South Island industrial and commercial customers. A viable process could also create potential export opportunities for the briquette product in the future.

OUTLOOK

Whilst the trading outlook for the remainder of the 2010 financial year appears more buoyant than 12 months earlier, there is still no clear economic and trading pattern for international markets. The New Zealand market contains a sense of fragility about it and South Port suspects that it will take a further 12-18 months before complete confidence is restored to global markets.

Having made that statement New Zealand, and in particular the Southern part of the country, is more fortunate than a number of other locations around the world. Demand for dairy, meat and forestry goods is relatively strong and should continue to underpin a steady resurgence in export activity. The agricultural sector does appear to be more "upbeat" with indications suggesting a higher level of fertiliser application will occur in the autumn. On the flipside a strong New Zealand dollar has prolonged the difficulties being experienced by other export industries. Examples of these include fishing and manufactured goods.

Based on all known factors at the date of releasing its 2010 interim result, South Port estimates that its full year earnings should be approximately $3.5 million. Shareholders need to be aware that the outcome of the scheduled arbitration with NZAS is likely to impact the final reported profit. It is hoped that the arbitration result will be known prior to South Port's NZX reporting deadline in late August 2010.

DIVIDEND

After assessing the anticipated year end result, the Directors have declared an unchanged imputed interim dividend of 4.50 cents per share (2009 – 4.50 cents) payable on 3 March 2010.

John Harrington
Chairman of Directors

Mark O'Connor
Chief Executive

financial statements

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

Six month period ended 31 December 2009

	31/12 2009 $000's	31/12 2008 $000's	Year to 30/06/09 $000's
Total operating revenues	10,467	9,068	19,070
Total operating expenses	(6,595)	(5,593)	(12,334)
Gross profit	3,872	3,475	6,736
Administrative expenses	(1,092)	(999)	(2,045)
Operating profit before financing costs	2,780	2,476	4,691
Financial income	99	498	733
Financial expenses	(380)	(4)	(14)
Net financing income/(costs)	(281)	494	719
Other income	7	276	274
Surplus before taxation	**2,506**	**3,246**	**5,684**
Taxation	(767)	(953)	(1,566)
Net surplus after taxation	**1,739**	**2,293**	**4,118**
Basic earnings per share	$0.066	$0.088	$0.157

CONSOLIDATED STATEMENT OF CASH FLOWS

Six month period ended 31 December 2009

	31/12 2009 $000's	31/12 2008 $000's	Year to 30/06/09 $000's
Cash flows from operating (note 5)	1,008	2,484	6,459
Cash flows from investing	(1,588)	737	(1,674)
Cash flows from financing	(361)	(1,920)	(3,101)
NET INCREASE/(DECREASE) IN CASH	(941)	1,301	1,684

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	31/12 2009 $000's	31/12 2008 $000's	Year to 30/06/09 $000's
TOTAL EQUITY	**27,078**	**27,057**	**27,700**
NON-CURRENT ASSETS			
Property, plant & equipment	25,600	24,137	25,226
Investments	17	16	15
Other	–	15	–
Deferred tax asset	1,307	1,426	1,522
Total non-current assets	26,924	25,594	26,763
CURRENT ASSETS			
Cash	839	1,397	1,780
Trade and other receivables	3,765	3,434	2,996
Total current assets	4,604	4,831	4,776
Total assets	**31,528**	**30,425**	**31,539**
NON-CURRENT LIABILITIES			
Employee provisions	52	53	51
Total non-current liabilities	52	53	51
CURRENT LIABILITIES			
Current borrowings	2,000	–	–
Trade and other payables	1,450	2,362	2,511
Provisions	643	592	633
Other	305	361	644
Total current liabilities	4,398	3,315	3,788
Total liabilities	**4,450**	**3,368**	**3,839**
TOTAL NET ASSETS	**27,078**	**27,057**	**27,700**
Net asset backing per share	$1.03	$1.03	$1.06

notes to financial statements

For the six month period ended 31 December 2009

1 • ACTIVITIES OF SOUTH PORT GROUP

The Group operates predominantly in the port and property industries. All operations are carried out in the Southland region.

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-orientated entities.

The financial statements also 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 30%. Income tax expense is recognised in the Statement of Financial Performance except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

4 • STATEMENT OF MOVEMENT IN EQUITY

	31/12 2009 $000's	31/12 2008 $000's	Year to 30/06/09 $000's
Total equity at beginning of the period	**27,700**	**27,129**	**27,129**
Net surplus	1,739	2,293	4,118
Total recognised revenues and expenses	**1,739**	**2,293**	**4,118**
Distributions to shareholders	(2,361)	(1,771)	(2,951)
Change in value of available for sale financial assets	–	(594)	(596)
Total equity at end of the period	**27,078**	**27,057**	**27,700**

5 • NET CASH FLOW FROM OPERATING ACTIVITIES

	31/12 2009 $000's	31/12 2008 $000's	Year to 30/06/09 $000's
Surplus after taxation	1,739	2,293	4,118
Add (less) items classified as investing activities	–	(136)	(148)
Add non-cash items	1,564	795	1,740
Add (less) movement in working capital	(2,295)	(468)	749
Net cash provided by operating activities	1,008	2,484	6,459

South Port NZ

directory

GROUP COMPANIES

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

DIRECTORS

- J. A. Harrington — *Chairman*
- R. T. Chapman
- R. G. M. Christie
- T. M. Foggo
- G. D. Heenan
- G. J. Kirk

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

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